MARKETING POLICIES

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BY

HUGH E. AGNEW, A.B., M.Pd., Litt.D.
Professor of Marketing, Chairman of Marketing Department,
New York University

AND

DALE HOUGHTON, A.M., M.C.S.
Associate Professor of Marketing
New York University

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Preface

This book literally starts about where most books on the general subject of marketing leave off. It deals with values rather than with elementary processes. It is an approach to the study of marketing from the qualitative, rather than the quantitative, angle. Perhaps it is the first extensive study in the field consciously to make that approach. The point of view is "What is it worth?" rather than "What is it, or where did it come from?"

Most of the topics presented in this book pertain to those phases of marketing which are important to nearly every campaign, yet which have received little attention in other books in the field.

The scope has been limited to topics which refer strictly to marketing and merchandising to the exclusion of advertising and sales management, which might be expected to be included in a treatise entitled "Marketing Policies." Those subjects have been presented many times in books which are available.

Several new chapters are included in which the material is new in the literature of marketing except for occasional articles in periodicals. Interstate Barriers to Trade, the Consumer Movement, Continuing Services, Sampling, Premiums and Contests, and Packages and Package Inserts all designate chapters which canvass these subjects with thoroughness. Heretofore a few scattered paragraphs have comprised the discussion of these subjects in so far as the marketing books are concerned.

With the topics which have been more generally discussed in other books, the approach is one of evaluation rather than of description. This particularly applies to the chapters on

Research and Product and Market Analysis and to the various functions performed by middlemen. The chapters on Pricing approach the subject from the viewpoint of the one who has to make prices rather than from economic influences.

Three campaigns are analyzed in detail. One, Windex, is a consumer campaign for a household specialty; one is for Cellophane and includes both consumer and industrial coverage; and the one for Dry Ice is a strictly industrial campaign.

The discussion of distributive agents centers on the services that each performs and a method of evaluating those services; for example, what should be the compensation for warehousing as compared with what is paid for selling. A comprehensive review of the drug field is presented in illustrating the functions of distributors and the remuneration for each function. The leased departments of stores and super markets are given extensive consideration for the first time in a marketing text.

It is impossible to acknowledge all the help that has been provided by friends whose contributions have done so much to make the text worth while. Some have preferred to remain anonymous. Others have been given credit at the time their contributions were under discussion. Particular acknowledgment is extended to Egmont Arens for supplying illustrations for the discussion of packages and to L. B Steele for supplying material for the story of Cellophane. Professor James C. Drury aided in reading proof and gave many very valuable suggestions for preparing the manuscript. Also to Miss Florence H. M. Anderson the authors extend their thanks for much work in verifying quotations and statements and for careful proofreading.

HUGH E. AGNEW,
DALE HOUGHTON.

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CHAPTER I

More and Better Business Training

Early American Business.—All in all, there has been much inflation of American business genius. The country was prodigally supplied with natural resources. There have always been an abundance of fertile land, a climate conducive to enterprise, and rich deposits of iron, copper, lead, and the precious metals An abundance of coal, widely distributed, a large part of the world's supply of petroleum, and forests so extensive that they seemed inexhaustible were available to the first who came to claim them. Coming into the wilds to cope with nature and some enemies like the Indians and quantities of insects unknown before tended to make men versatile. Probably the mixture of races, providing the best methods of dealing with materials known to many peoples, also stimulated the inventive genius which has played such a large part in American development.

The first fortunes which businessmen of our country amassed came from appropriating large areas of agricultural land. Then came shipping, which our isolated country required both to bring in manufactured goods and to take out raw materials. The timber men, who denuded the forests, came along with the shippers and contributed to the list of rich men of America. Iron and steel provided another crop of millionaires, and petroleum still others. Mining added many more. All of these, except the shippers, gained their wealth by taking the soil, the timber which grew on it, and the mineral wealth which lay under it. With some, as the timber men, a heritage which might have provided amply for posterity was practically destroyed.

Early competition was ruthlessly cruel and little better than brigandage. While the pirate and robber took that which others had acquired, those who denuded the forests, exterminated the wild game, and exhausted the seal fisheries robbed future generations of that in which they had an inherent right. They have fittingly been called "despoilers."

Of such "businessmen" there was little to learn, at least little that could be of value to future generations. Of other businessmen, who often succeeded by means little more honorable, Lord Rose well said near the close of the century, "I want my son to choose a profession. Business is nothing for a gentleman to engage in." There were many successful businessmen of the less predatory type, but they left little or nothing of records, methods, or statistics which would help a young person to develop himself for a business career. Few, if any, had discovered that successful business should provide a satisfactory service and that profits should come as a reward for that service.

The very idea of a businessman, until long after the Civil War, was a trader, a dealer; one who "by hook or crook" managed to get something out of the one with whom he did business. Unfortunately that idea was not considered seriously wrong for the first three-quarters of the last century. Peddlers from whom a large part of farmers' supplies were bought were notoriously dishonest. Even the best of merchants did not mark goods in plain figures, and almost every transaction was made in the atmosphere of suspicion. Each side tried to deceive the other by the most shameful lying. That, however, was no more characteristic of American business than of business in other countries. The nature of an apprenticeship in such methods of commercial transactions could be only a little more ethical than Fagin's school for pickpockets.

Business Training.—As it gradually dawned upon businessmen that it was a normal condition for both sides to profit by the same transaction, they began slowly to realize that a customer had a value and so should be preserved. Farmers came to realize that it was necessary for the merchants who supplied them to make a profit. Some were wise enough to speculate as to how they might obtain their supplies if there were no stores or storekeepers.

With the development of railways, of metropolitan newspapers, and of huge factories, it was discovered that everyone's welfare was enhanced by the businessman. Some deserving philanthropies by men of wealth also went far to break down the prejudices against business, and the most successful came to be revered. Their advice was widely sought. It was only natural that they regarded their training as ample; they were evidence of its effectiveness. So they gave all and sundry the formulas which had produced them. The inference, if not the urgent advice, was that others might follow the same routes to a similar success.

Even at this late date, a large number of the leaders in business think that the only way for a young man to learn a business is to "begin at the bottom and work up." If the same method were to be applied to the professions, doctors, dentists, lawyers, and architects would have no formal training, but would each go out and by working with another man—who had developed similarly—discover the whole field by and for himself. Instead, the medical student has the accumulated experience of all the leading physicians and surgeons who have preceded him. These are accurately reported, printed, and indexed for his development. He can begin his preparation with a scientific approach to his problems and an understanding as broad as that of the men who have been long in the field. He needs only to acquire skill in applying what he knows. So with others prepared to follow a profession

Compare that preparation with the training of a young man equipped with a "liberal college education" who enters business. He learns only as he observes and as he is told by those who have been longer on the job. He has no way to evaluate what he learns from older men or to get the criticisms of other men of similar experience. He must unfortunately begin at the bottom, and if he makes progress, it is because of his good fortune, not the good training he receives.

The first progress toward acquiring business information through recorded experience came with the technical publications. The earliest of these, as would be expected, was in the agricultural field. Farming was, and still is, the greatest business of the country. Soon after the inventions of the reaper and mower came the first publication devoted to the interest of the farmer.

That was in 1844. Publications devoted to trade and industry followed somewhat tardily. Banking was one of the earliest to support a publication, then came shipping, insurance, and the various branches of retailing. But it was not until near the close of the nineteenth century that the more abstract forms of business, such as office system, credits, salesmanship, and advertising were provided with publications. Textbooks soon followed in the various fields, and commercial schools which taught shorthand, typing, and business arithmetic multiplied. But it was not until the first decade of the present century that the real schools of business, which gave instruction on the college level, came into existence.

Schools of Business Emerge.—Schools of business are still on the defensive. As they are only about a quarter of a century old, they have not yet established themselves so that they receive the universal acceptance of other professional schools. Yet, considering the meager material they had to work with, the scanty records of transactions of other days, and the reluctance of established business concerns to divulge their methods, progress has been better than might have been expected.

The sneer of the practical businessman at the impractical college professor is far less prevalent now that it was in the golden age of the late twenties. Probably the chief reason is that most businessmen have come to realize what a mess they made of things, and what a jerry-built structure they had erected. Our businessmen, especially our bankers, have been deflated. It is difficult to trace a very large number of really successful businessmen back as much as 25 years. Dean Joseph French Johnson made the statement soon after the close of the war: "America has no bankers. We have men in the banking business; many of them. But in comparison with the best in Europe, America has no bankers." The closing of the banks in March, 1933, is evidence that Dean Johnson was right.

It was natural that accounting should be one of the first subjects to be adequately presented in the classroom for business students. It had been highly developed as a profession as compared with management and marketing. From its nature it was apparent that "good sense," or native ability, is not enough to prepare one to be an accountant. In addition, the firm's credit depended to a considerable degree upon the com-

pleteness and accuracy of its records. Then the new tax laws, which were based on income and profits, required a much higher standard of accounting than merely keeping track of those who owed the firm and to whom the firm was indebted.

Banking and finance became more practically important as the trend to corporate business away from partnerships increased. At least an elementary knowledge of stocks and bonds could be learned in the classroom better than from anyone in the business.

Management and marketing were slower in being recognized as fitting subjects to study at college. The early teaching of salesmanship, as conducted by itinerant instructors and most courses given by mail, was primarily a bag of tricks—as Prof. Elmer E. Ferris called it, "the science of keeping one's foot in the door." Instruction in advertising was either a course in printing or a course in English—sometimes a combination of the two. This type of instruction delayed the adoption of the subjects by colleges and universities.

Time and motion studies as made by Frederick W. Taylor and others made a very solid foundation for a course in factory management, but it was a long time before these were promoted to the level of college work.

How to determine what to make, when it will be wanted, where, at what price, and by whom are questions that lie at the very base of manufacturing success. The method of solving these questions constitutes a fundamental part of marketing as now taught in the collegiate schools of business. This is supplemented by an investigation of the most economical and efficient ways to get needed products from the place where they originate into the hands of those who consume them.

The Need of Experts.—Let us examine a few cases of business practice to throw some light on the bungling of business—big business in this case. A petroleum firm was wholly unable to establish any correlation between its advertising and sales. Its accountants could not explain. The advertising and sales managers were not in agreement and neither could explain what was wrong, much less how to go about finding a remedy. The question naturally rose as to the benefits derived from the millions that were being spent in advertising.

Finally a marketing expert was called in. By revising the accounting system, by allocating costs to the products and dis-

tricts which created those costs, and finally by determining the lag between the time the advertising was done and its effect was reflected in orders, there was shown to be a very close relation between advertising and sales.

Another case is that of a large food manufacturer. Sales had been increasing both in dollar value and in tons. So had each year's deficit increased over the previous year. What was to be done? No one seemed to know what was wrong, and, not knowing the trouble, no one had a sane idea of what to do about it. Again a marketing expert was called in. As in the petroleum case, the books had to be practically rewritten before costs could be determined and a diagnosis made. It developed that the principal product, both in tonnage and in money value, had been sold at a loss. The more that was sold, the greater the loss, yet no one in the company knew it. Still worse, no one knew how to make an analysis that would show what was wrong.

Another food company, employing several hundred salesmen, put out an extensive sales manual as recently as 1936. This was an elaborate and expensive publication devoted to the study of physiognomy. In fact it was a sort of textbook on that subject, elaborately illustrated. It attempted to develop all the firm's salesmen into physiognomists. It is not surprising that a sales manager should not know that some of the plausible statements about faces and temperaments made by the physiognomists are wholly without scientific foundation. But it is incredible that an intelligent man, responsible for the selection and training of several hundred salesmen, not knowing anything about the authenticity of this miscalled "science," would spend thousands of dollars of this firm's money on an outworn fallacy without investigating it.

Is it conceivable that an officer of a company would be permitted to change an important formula without giving it a careful investigation? Would that be any more preposterous than permitting a sales manager to embark on a campaign based upon an exploded theory and so mislead and misdirect salesmen that their whole customer approach would be on a wrong foundation? That is what happened.

One more case and we shall close our evidence as to the inadequacy of training for business by "beginning at the bottom and going through the business." The authors heartily approve of

a person's completing his education by that method, especially concerning a particular business. As a complete training, however, no matter how much time or study is devoted to it, it has no sound pedagogical foundation. It will result at best in a skilled laborer, not in a master of business. We believe that there are certain principles applicable to all businesses and that a careful study of these should be the foundation of training for all forms of participation in directing or supervising trade, finance, commerce, and industry.

This is evident in the following experience by one of the leading firms selling from house to house. About 5 per cent of the annual business came from California, and, as that state had considerably less than 4 per cent of the population of the country, the performance of the district manager and his crew was thought to be highly creditable. Compliments and bonuses were showered upon them.

Then a shrewd man in the sales department raised the question "How do we know that they are doing a good job in California? Maybe they should be giving us an even larger share of our business." The task of finding out whether more than 5 per cent of their business should come from the Golden State was, as usual, given to the one who raised the question. He wrote to several firms doing a national business and offered confidentially to exchange information as to the part of their business that came from each state. Some refused to give that information, even though they could see some benefits and no harm in it. They had never done such a thing; therefore they should not make an innovation now.

However, several more progressive sales managers did exchange the information requested. It revealed that all of them, except the one who initiated the exchange, received 7 per cent or more of their gross sales from California. This brief account is of one of the very first studies of sales potentials which was applied to the actual sales of several companies.

Just What Is Business?—The authors believe that the supplying of food, clothing, shelter, protection, medical care, education, and recreation and the creation and preservation of wealth constitute the business of the world. They believe that each of these definite objectives is a social service. These services can be classified as follows:

1. Fabrication—manufacturing and constructing.
2. Cultivation—includes farming, gardening, lumbering, and raising poultry and all kinds of livestock.
3. Transportation—of people, merchandise, intelligence, money. It includes mining and fisheries.
4. Conservation—of wealth, of learning, and of works of art.
5. Administration—making laws and executing them, including supervising military and police forces.
6. Education and recreation—the two overlap, but are inseparable. They are not mutually inclusive.
7. Sanitation—providing for the preservation of health and the care of the sick.

It is the belief of the authors that everyone gainfully employed is devoted to some one of these basic services to mankind. The two first classifications constitute indirect services. The products resulting from the labors in these classes may go to house, or feed, or entertain people in distant parts, of whom the producers know nothing. At the same time these producers will be receiving the fruits of laborers equally distant. Those who grow oranges at Porterville, Calif., for the employees of shoe factories in Brockton, Mass., may wear the shoes that come from those factories.

In transportation the service may be direct or indirect. Providing airplane transportation is a direct personal service, but freighting coal from Carbondale, Pa., to factories at Brockton, Mass., for power is an indirect service; that is, none of those engaged in moving the coal has personal contact with those who will benefit from its use.

The other four classes, conservation, administration, sanitation, and education and recreation, are more direct. Each group offers services to all the other groups besides members of the same group.

As the authors see marketing, it belongs to the educational class and serves all. It helps the fabricator and cultivator to produce the right products, in the right amounts, at the right times, places, and prices. It also helps them to reach the consumers most efficiently and economically, thus making transportation also efficient. Psychologically it helps consumers to make selections which will provide the maximum satisfaction.

For conservation it explains, teaches, and encourages its greatest possible use. In the storage of goods marketers can supply

data and consumption information that result in the most economic use of storage facilities.

In so far and in proportion as the other groups—administration, sanitation, education and recreation—are consumers, marketing can aid them in procuring supplies the same as other consumers. Marketers can also help the members of these groups to sell their various services to all who may be able to profit by them.

Sifting the Wheat from the Chaff.—From a large number of interviews extending over more than twenty years, the investigation of many records and many methods, some basic principles will be given in the following pages concerning such vital topics as pricing, correlating manufacturing, selling, and advertising, and determining what, where, when, and how much can be sold. Scientific methods will be applied to these topics. Such a text presupposes a general familiarity with the common functions and agents now employed in marketing. The aim is not so much to review common practices as to analyze and evaluate the fundamental procedures, so that those which are most serviceable may be recognized and preserved, and those that are unscientific and uneconomic, recognized and discarded. We believe that it is possible now to point out the enduring from the passing. New methods, new goods, and new discoveries, both mental and physical, must be awaited. Prophecies will be avoided, but possibilities may be speculated upon. This is the authors' introduction to the chapters which follow.

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CHAPTER II

Product Analysis

Some Fundamentals.—The fundamental purpose of manufacturing, of running a wholesale establishment, or of keeping a retail store is to sell something—goods. In the same way, the one reason for preparing one's self to follow a profession is to sell a service; lawyers, architects, physicians, engineers, and college professors all have expert services to sell. The public utilities, railways, telephone companies, gas companies, and banks all sell services. That is what they exist for, and their continued existence depends on their ability to sell.

Product analysis is an examination of the thing one sells to see if it is the kind of thing that buyers want. There was a time, not so long ago, when a manufacturer would make something in the way he liked to make it—or in the way he could make it the cheapest—and then would look for "good" salesmen who could go out and sell it. It might not be just what the buyer wanted, but if he could be cajoled, or argued, or flattered, or browbeaten into thinking it was what he wanted, that was considered "good" selling. Only slightly better were the methods of the manufacturer who made a product in the way he thought the consumer ought to want it, or *ought to have it*, even if he did not want it that way.

There is now an oversupply of teachers of the classic languages, who are trying to sell a service that they think people should have. They think it would be good for young people to study Greek and Latin. But, not being able to convince either those whom they would teach or those who supervise the instruction given the young of the value of their service, they are out of a

job; that is, they are not selling the service they have to offer. This is wholly aside from the question of whether they are right or wrong. Such unsalability does not in any way indicate that the service is unworthy, but merely that it has a limited market. Exactly the same thing is true of many products. In cold weather, woolen stockings are unquestionably more suitable and more comfortable than silk and offer better protection for health. Especially is all this true when style prescribes short skirts. But the hosiery manufacturer who insists on making woolen stockings because women should wear them will soon be out of business, unless he can convince women that they will like to wear them—and that is a remote possibility.

Do People Know What They Like and Why?—Research, as applied to laboratory investigation, deals with materials and the best ways to handle them. Laboratory research deals with questions of how goods can be made so as best to serve the uses for which they are intended. This is called "scientific" research, because it involves the physical sciences of chemistry, physics, metallurgy, and engineering. In products of this type, few people can or do know what qualities or grades they want. They do not know the ingredients or the methods of manufacture that produce the most serviceable goods. But they do know the results they expect from the goods they buy. They want knives that will hold their edges, fabrics that will not shrink or fade, foods that will be clean, wholesome, and tasty. Moreover, most people want all this and more at a price that seems reasonable to them.

If price were of no consequence, most products could be made satisfactory even to the most critical buyer. But that is so seldom the case that with the great majority of manufacturers there is a continuous adjustment between price and quality

Occasionally a buyer finds something so well adapted to his needs that he buys it with enthusiasm. The man who first attached a piece of rubber to the end of a lead pencil provided a utility of such widespread use and at so little cost that it received immediate acceptance and sold by the millions. The inventor made a fortune out of it. The reason for buying was obvious.

In contrast, one frequently hears the expression, "I wonder why I ever bought it." Almost every home has a great quantity

of miscellaneous items, seldom if ever used, yet kept because they represent an expenditure. Sooner or later they find their way to the ashcan, not because they are worn out, but because it is a nuisance to keep them around.

One reason why it is so hard to determine what people like is that during the process of buying their minds are so occupied with the selection and the terms of the sale that no thought can be given to the mental processes involved. Few stop to review the transaction while it is fresh in mind to determine just what induced them to buy. As a result, those who make things to sell and those who buy for resale depend primarily upon fixed habits to make their selections. Their customers have bought similar items in the past; there are no known substitutes at hand, so the probabilities are that they will buy again. With food, confections, remedies, and the vast majority of other routine purchases, habit changes so little from one season to another that it is a safe guide. In contrast, certain items of clothing change so much from year to year that no consumer can tell what she will want to wear a few months later. Yet the habit of following styles is so strongly entrenched that if the store buyer is convinced of authenticity of style he can select merchandise with perfect assurance that there will be a market.

With the new product, there is no such guide as habit. Deciding what to produce is a matter of judgment without rules or standards, and, so far, without methods or research sufficiently developed to serve as a safe guide. One new magazine in about 200 succeeds. If one novel in ten makes money for a publisher, he is fortunate. If five patterns of silk out of 100 become popular, the manufacturer is satisfied. One theatrical performance in five may make money for the producer. Attempts to develop summer resorts, amusement parks, and residential sections for cities have met with many, many failures.

Products Given Wrong Sex.—Obviously, the ultimate purpose of product analysis, as related to research, is to increase the amount of the product used. This may come through new users or through new uses by those who already buy. When it became common practice for women to smoke cigarettes, the market was doubled. When Pompeian face cream was invented it was with the expectation that the chief sale would be to men, especially to barbers. It did not become a success until it was

discovered that women, not men, constituted the natural market. Safety razors for women have not reached anything like the wide sale that was expected, but a better system of merchandising and advertising will probably enlarge that market.

The sale of Postum was very greatly increased by an educational campaign directed to the children's market. This was an appeal not primarily to the youngsters but to their mothers to serve them a warm drink. When selling radios was a matter of supplying parts, the appeal was wholly to men and especially to men mechanically inclined. The chief entertainment was in getting distant stations and that for a number of years was predominantly a man's pastime. When the assembled set was offered, the whole market changed. The men who had bought parts and assembled them lost interest in home-made sets. Up to that time, the broadcasting stations had refused to pay anything for talent. But with sets the market changed very largely to women. They were interested in radio because of the programs, whereas the men had found entertainment in the wonderful mechanical gadget. With the advent of the sets, it was necessary to convince women that they could operate the receiver and, furthermore, that it would bring them programs that they would enjoy hearing. It was a matter of selling the set *and* the program, and the broadcasters had to employ talent and provide entertainment that would make the sale of the sets possible.

Will television be sold to men, to women, or to both? Are trailers designed to please the convenience of men, or women, or both? And why has the sale fallen off sharply in the last few years; is it due to loss of interest by men, or by women?

When haberdashery stores remained open evenings, men largely bought their own underwear and hosiery. When these stores were no longer open evenings, women took over a large part of this buying. Instead of going to the men's clothing stores, as the men had done, they went to department stores, where they felt more at home.

Doubtless a careful analysis will show that many products sold primarily to men and others sold primarily to women need a broader appeal. Times and customs change.

Seasonal Studies.—Seasons play such a large part in marketing that numerous studies have been made to determine the

effect of weather on the demand for goods. Lack of space prevents reviewing many of these.

Is more coffee consumed in cold months than warm? If so, should sales efforts be more aggressive at one time than another? These two problems were posed to one of the authors. Sales records were obtained from a large grocery house, and a careful analysis showed that the consumption of coffee varied inversely as the length of daylight. The variation, however, was less than that of the number of hours. That is, in territories where the longest days were one-third longer than the shortest, the consumption of coffee in winter tended to increase 15 to 20 per cent over that of the long summer days.

This conclusion was arrived at by computing monthly sales of coffee to about 500 grocers over a period of 5 years. Since the per capita consumption of coffee has tended to increase from year to year, it would be enlightening to make another study of the same nature to see whether the same condition still persists. Incidentally it is interesting to note that the number of suicides per thousand population varies directly as the length of daylight.[1]

A much more scientific study of the effect of weather on sales was made by the General Electric Company concerning the sale of electric fans. Someone was designated in each of the company's offices to make a record of the temperature when the fan was turned on and again when it was turned off. As might be expected, these two coincided very closely. Another point was brought to light, that regardless of the mean temperature the fans were turned on and off at about the same temperature whether in Montreal or Miami.

An extensive study of the temperature records of the leading cities gave very accurate dates as to when the electric-fan season started and ended in each. This gave definite dates to start the display and advertising of fans in all cities where the General Electric was represented.

Other studies have been made on the effect of warm weather on magazine circulation and, to a less extent, on newspaper reading. None of them is convincing. Both of these studies are closely related to vacation habits. The "dull summer months" are attributed to the fact that "everyone is away during the hot weather." No one has made a careful study to show

[1] Warner's "American Charities."

how many more people actually leave our principal cities than go to them during July and August. Further, it has not been definitely shown that people read less in summer than in winter, in any investigation that has come to the authors' attention. It is just assumed that they do.

A superficial study of a few hundred homes, made by telephone, indicated that not more than 5 per cent of the residents of one city were away on vacation in either July or August. As people having telephones are more given to travel than those who do not have them, probably 5 per cent is too high an estimate for the whole population.

June is the month of weddings. "Everybody says so." But that does not make it so. *Printers' Ink* made a study of the number of marriage licenses issued in New York each month for several years. An actual count showed that almost as many weddings had occurred in October as in June. December is another month of many marriages. Indeed, they occur in all months. Of course, it may be possible that a study of a large territory would give a different result. It would be worth investigating, if for no other reason than to get a more productive season for advertising to prospective brides

Manufacturers of antifreeze materials to protect automobile radiators from freezing use the zones indicated by isothermic lines running more or less parallel from east to west across the country. A few places have such low temperatures that it is not practical to use automobiles during the coldest weather unless they are kept in heated garages. From these frigid areas the temperature varies all the way to perpetual summer, where freezing is practically unknown. Maps showing such temperature zones can be procured from the United States Weather Bureau. A study of temperatures over a period of years will give the approximate season when automobiles should be protected in each zone.

This is a kind of research that can be accomplished from available records. Good judgment dictates that when a problem arises all such records be consulted before undertaking a field survey. And frequently such records are more conclusive than most field surveys can be made.

Philosophy of Marketing Research.—Marketing research, which includes both product and market analysis, is so new,

and its uses are so varied, that it is only partially understood. Henry G. Weaver, director of consumer research for General Motors, has been as highly successful in securing customers' reaction to his firm's products as anyone making similar studies whom the authors know. As the methods used by Mr. Weaver are available, we shall review them both for their results and for the method.

The philosophy of these consumer investigations is founded upon Ruskin's statement:[1]

> Consumption absolute is the end, crown and perfection of production; and wise consumption is a far more difficult art than wise production. It is therefore the manner and issue of consumption which are the real tests of production. Production does not consist in things laboriously made, but in things serviceably consumable—For as consumption is the end and aim of production, so life is the end and aim of consumption.

Alfred P. Sloan, chairman of the board of General Motors, modernizes this philosophy and makes it more concrete:

> To discuss consumer research as a functional activity would give an erroneous impression. In its broad implications, it is more in the nature of an operating philosophy, which, to be fully effective, must extend through all phases of business—weighing every action from the standpoint of how it affects the good will of the institution, recognizing that the quickest way to profits—and the permanent assurance of such profits—is to serve the customer in the way in which the customer wants to be served.

To carry out this policy the consumer research studies of General Motors have consulted automobile users along the following general lines:

1. What features are preferred in regard to the appearance of the automobile, color, shape of hood, kind and color of upholstery. This enables the manufacturer to know what proportion of his cars to make of each color and interior finish.

2. What placing and shaping of the controls will best meet the driver's convenience in handling the car? This, it should be noted, does not extend to the functional structure of the machine, about which few operators are capable of judging.

[1] Essay "Unto This Last" published 1851.

3. What determines the end of a car's usefulness to the owner? That is, to what does he give most consideration in deciding to get rid of his old car?

4. How does the owner have his car serviced, by the agency from which he bought it, from a general garage, or otherwise? This gives the sales department an excellent checkup upon the degree of satisfaction its distributors render customers and what services the customers value most. Also, drivers are asked their pet annoyances in the way a car acts or in road incidents.

5. What are the characteristics customers like most and least in automobile salesmen? This is ideal material for the sales manual.

6. What kind of advertising do consumers like best—not only the contents of the advertisements, but their physical presentation, and how the message is sent to readers?

7. In some of the more recent questionnaires, Mr. Weaver has introduced a new measure; that of value. It was handled as shown in the tabulation below.

Check Your Appraisal

Dash compartment	0	$1	$5	$10	$15	$20	$25	$30	$40	$50
Adjustable seats	0	1	5	10	15	20	25	30	40	50
Ride regulator	0	1	5	10	15	20	25	30	40	50
Over size balloons	0	1	5	10	15	20	25	30	40	50
Safety glass	0	1	5	10	15	20	25	30	40	50
Radiator shutters	0	1	5	10	15	20	25	30	40	50
Automatic choke	0	1	5	10	15	20	25	30	40	50
Syncro-mesh	0	1	5	10	15	20	25	30	40	50
Free wheeling	0	1	5	10	15	20	25	30	40	50
Hydraulic brakes	0	1	5	10	15	20	25	30	40	50
No-draft ventilation	0	1	5	10	15	20	25	30	40	50
Automatic clutch	0	1	5	10	15	20	25	30	40	50
Automatic starter	0	1	5	10	15	20	25	30	40	50

This is a part of product and consumer investigation that has not been given the attention which its importance justifies.

8. What other miscellaneous information affects sales and selling methods, such as the ability of the general reader to recognize General Motors products by name, the length of time automobiles are used before turning them in, etc.?

It will be apparent from the foregoing that this manufacturer is very actively interested in how his products are used and how

he can help consumers to get the greatest satisfaction from the products they buy from him.

The methods of securing this information will be considered later.

Preliminary Tests.—Students may find extensive and detailed lists of questions that are pertinent to an idealized product. One enterprising New York University student made a list of an even 500 such questions. The answers to most were obvious, such as, Is it used by old or young? by men or women? by country or city residents? It is highly important to get the product right before allowing it to go on the market. To check against such a list of questions may be helpful. If the item is to be advertised, it is doubly important that the first ones put out be made as nearly perfect as possible. When Sunkist oranges were first advertised, it happened that a large number were extremely tart, so much so that they were not liked by many buyers. The result was so unfortunate that sales were disappointing. Drastic measures were taken to prevent repetition. Among these was local legislation to prevent the shipment of oranges which had not reached a specified degree of maturity—eight parts of sweet to one of acid. Months of advertising were necessary to induce those who had been dissatisfied with their initial purchase to try Sunkist again.

In contrast to this, Procter & Gamble Company experimented for two years with Crisco before they felt that it was ready for the market. Once perfected, it soon proved popular and no change has been found necessary, although "creamed" Crisco has been developed recently. The same firm has never changed the consistency, the size, or the shape of the regular-size Ivory soap, which has been on the market for more than a half century.

One firm found it necessary to send a man all the way from Michigan to the Argentine to assemble some seeders which had been shipped before any of them were set up. The expense of repairing the misfits was more than the profit for the whole year.

A clock manufacturer of Bridgeport, Conn., sent a shipment of alarm clocks to Cairo, Egypt. After some months his agent notified him that the clocks were not selling and asked for instructions. An investigator was hurried to Cairo. He found that the natives did not care for the soft, musical gong. They wanted one that the neighbors could hear. It was a distinction

to own an alarm clock, and the loud gong proclaimed its presence to the neighbors. The clocks had to be returned to America. A long list of failures of this kind could be presented, but perhaps these examples sufficiently show the necessity of perfecting an article before it is put on the market.

Inquiries about Packages.—Product analysis emphatically involves packages and containers. While this is not the place to go into an extensive consideration of packaging, a few investigations may be recounted which show the possibility of profitable research in this field. One of the great packing companies spent some $1,500 in merely investigating the reactions of consumers to a proposed package. It is not apparent that the one finally selected was better or poorer than several others. The method was slow and tedious, and it was expensive. The most that can be said for this method of selection is that it was conservative and eliminated the possibility of serious mistakes.

A tea packer made an investigation and found that a large part of his consumers bought tea in very small amounts. Before that most of the tea had been sold in bulk and weighed out at the time of sale. In order to protect his tea against the damage that resulted from absorbing moisture, he packed it in tin containers and in quantities that were popular with the ultimate consumers. The response was almost instantaneous, and he soon gained control of a large part of the market.

Another tea packer insisted that this was not an economical way to pack tea because the cost of the package was too great in comparison to the amount of tea. His logic may have been right, but a large majority of the people in his territory, including his former customers, bought the new packages. They did so in spite of the fact that his tea was admittedly of a higher quality.

A clerk in a grocery store reported that one of the best lines of jams, jellies, and marmalades that the store carried was decreasing in sales because the top was sealed so tightly that it was almost impossible to get it off with the implements at hand in the ordinary kitchen.

A limited investigation showed that a large majority of those questioned did not use tooth powder, because it was so difficult to get it out of the package without scattering it "all over the place," as one young lady said. While most of those who had

tried tooth powder liked it better than paste, only a very few had continued to use the powder because of this difficulty.

These are but a few of the points that have come to the writers' attention in investigating packages, but doubtless there are many others that would be brought to light with further study. It is evident that for gift candy, buyers will willingly pay a liberal amount for the package. No matter how fine the candy may be or how expensive in itself, it could not be sold for gifts if placed in the ordinary paper sack. But just what part of the selling price can profitably be charged up to the container is a question that can still be given some profitable research. Indeed, the sales value of the package for various products is one of conjecture as yet, which suggests the possibility of extensive investigation.

Method of Sale.—Already reference has been made to research that has been done profitably by retail stores. Probably some of the manufacturers could follow the example of the retailers in improving their methods of sale. Several years ago, an alert grocer of Bakersfield, Calif., sat down one afternoon and figured up the number of food stores and the clerks engaged by them. It immediately became apparent that if they all worked eighteen hours a day, they could not sell and wrap up the food supplies that were consumed in that trading area. Investigation soon showed that a considerable number of mail-order houses were doing a thriving business in the city. The grocer made a house-to-house call on a large number of residents. He frankly said that he was a grocer and that he was looking for information. He knew that many of the people of Bakersfield were buying their groceries and foods from mail-order houses, and he wanted to know why. The lower price was the answer that was anticipated, but on many items he asked specifically how much saving would be necessary in order to induce the buyer to send cash out of town for the product, pay the freight, and then carry it home. This brought forth many illuminating answers.

The thing in the back of his mind was the possibility of opening a cash-and-carry store. There was none in the town at that time. In order to test out the possibilities he advertised baskets of berries for sale one Saturday with the stipulation that they must be paid for in cash and carried away. They could not be delivered. The price was about 15 per cent lower than that for which

berries were selling in competing stores. When these sold out readily, he concluded that for staple products reduction in price would induce people to pay cash and carry their own purchases with them. He opened a cash-and-carry store and in a few months time he had taken over the most of the business which formerly went to the mail-order houses.

This is given in so much detail not only to show the benefits of this kind of study but also because the investigation was so thorough and convincing. It is well understood that many products are bought in the fashionable centers for prestige. A reduction in price on this type of merchandise will not attract purchasers to the less imposing shopping districts. But with many other products and with many consumers, the price is the one inducement that overbalances all others.

The enterprising proprietor of a small magazine and book store in Grand Central station, New York, conceived the idea of selling sets of the *Encyclopaedia Britannica* to customers who were waiting for late trains. The skeptical sales manager was sure that it could not be done—it never had been done—but because he was importuned at last gave the ambitious bookseller an opportunity to try out his plan. Not only did it work, but he discovered an unusually large number of cash customers.

The sale of handkerchiefs in drugstores, of prunes in dairy stores, of the magazine *Esquire* in high-class men's furnishing stores, and many other unusual outlets for standard merchandise have been developed by careful analysis and the willingness to experiment.

Inelastic Markets.—Many products are destined for a market which has little or no elasticity. Reducing the price of nails would not stimulate building construction or other uses. No bargain sale would induce a woman to buy a baby carriage if she did not have a baby. When one has a product of this kind, there is little that can be done to increase sales, except at the expense of competitors. Again, products sell only in relation to some other products over which the first manufacturer has no control. Automobile tires is one of these. The tire business can grow only as the automobile business grows, and there is very little that the tire manufacturers, either singly or in cooperation, can do to stimulate their market. Competition in this field naturally tends to be extremely active.

The chief consideration in such a situation is that the condition be recognized and that no efforts be lost attempting to penetrate a stone wall. Sometimes urging consumers to buy in larger quantities stimulates greater use. This was true with Clicquot Club ginger ale when the manufacturer induced grocery stores to stock it and sell it by the case. A greater impetus was given to consumption, which theretofore had been restricted to soda fountains and drugstores. At the time this is written, Pepsi-Cola is selling a six-bottle package for 25 cents. This anticipates that five extra bottles will be consumed before the purchaser returns. It probably will stimulate the use very materially.

Getting women to buy soap in large quantities by offering special inducements will probably not increase the total consumption of this article, or at best only to a small extent. The same thing is true with spices, extracts, baking powder, and shaving creams, to mention just a few. However, if a man had a large number of razor blades on hand, it is possible that he would discard used blades a little sooner than if he had only a few blades in his possession. With the first classes of articles named, reducing price or going to other expense of encouraging large purchases will probably result only in receiving less money for a month's or a year's supply. This is one of the characteristics of an inflexible market. The most that analysis and research can do here is to investigate competition.

What Does Quality Mean?—The meaning of quality will be different for many different articles. Appearance sometimes is one of the main requisites of quality. However, satisfactory service is the chief factor. An article is assumed to be of good quality if it will last for a long time without giving trouble or with a minimum of trouble.

This kind of quality is not always desirable. With extreme style goods, it adds little to value. They are doomed to be discarded when the vogue changes, and being still "as good as new" when they become obsolescent does not add anything to the satisfaction of ownership.

Price, of course, is an element in quality. A good article for the price, or good *value*, is what most people mean when they speak of quality. There is a limit to how good many items should be. A manufacturer of a furniture polish made it so good that he could not induce customers to use it in small enough quantities

to be really effective, and it was discontinued. One of the large spice mills prints on each package of cayenne pepper, "Very fine if you use *little* enough," and the "little" is underscored. Automobile wheels made with wooden spokes almost always outwore the rest of the car. Yet, when the attractive-looking steel wheel was presented, the very good quality wooden wheels were discarded.

These examples may make it apparent that quality is only relative and it can be added to the term "value" as more nearly descriptive of what consumers seek than merely fine workmanship and good materials. A note might also be added here in regard to the economy of quality goods. It is not always integrity or honesty that dictates the policy of a firm in the kind of product it puts out. Some firms believe that it is more profitable to make their products excel. Some have advertised "as good as they can be made," which, of course, is an exaggeration. But low-grade products are made exactly with the same motive. The manufacturer feels he can make more money on an inexpensive than on an expensive product. In each case, the motive is the same—to make money. The difference is in policy. It becomes unethical when a product, either good or poor, is misrepresented.

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CHAPTER III

Consumer Research Methods

Defining the Problem for Study.—Whether the investigation is to be made by interviews or through mail questionnaires, as Pauline Arnold has pointed out so convincingly, the first thing to do is to get "a correct understanding of the problem to be studied." For example, several different investigations have been made to determine the position value of advertisements in magazines. Evidently it is impractical to trace actual results from any considerable number of advertisements and then rate them according to the position occupied. The Campbell Soup Company seldom accepts any position in a magazine except the first page following the main editorial part. Some publishers put a premium price on this position; others give first choice to the advertiser who has had space continuously for the longest time. To be specific, just what would the Campbell Soup Company be interested in knowing about the relative value of different pages? In the publications where there is a rate differential for preferred positions, they would want to know whether the returns would justify the added cost. In publications that give the preferred positions to the advertisers who have maintained the most regular schedule, they might want to know the exact value of the bonus which the preferred position offers. The publisher wants to know exactly the value of the different positions he has to sell so that he may neither overprice nor underprice them.

Then what are the definite problems that are up for solution? The first concerns the value of different pages. How value is to

be determined is the next. Is it by the number of people who see the different pages? Or is it the number of readers who are able to remember the advertisements in the different positions? Or is there sufficient prestige in occupying preferred positions to give added emphasis to the message and so make it bring larger returns? As inferred above, the definite measure of value is the business produced by the advertising. Because of the great difficulty—even the impossibility—of determining the sales produced, or induced, by a given advertisement, it is generally assumed that the value varies directly with the number of people who see the display. Practically all advertisement rates are fixed on that scale of measure.

To determine the number of people who saw an advertisement is almost as difficult as to determine the number who were influenced by it to buy something.[1] It has been too commonly assumed that the position in the magazine or newspaper was the chief factor in determining the ability of a respondent to recognize a display. The authors have not been able to find definite evidence that there is a certain or fixed relationship between the ability to remember an advertisement and the effect of that advertisement on purchasing. Many times the influence of advertising is subconscious and not recognized by the reader. In contrast, an advertisement may be remembered because of some extraneous matter that it contained which may have had no influence in creating a desire for the products offered for sale.

To the experienced advertising man, the opinion of a layman that an advertisement was "brilliant" or "excellent" is evidence that the mind of the reader has been centered on the advertisement rather than on the product which was offered for sale. In such a case the advertisement was remembered rather than the offer, and the position in the magazine might or might not be an important influence. All this discussion has served its purpose if it has convinced the reader of the necessity of first getting "a correct understanding of the problem."

[1] Most circulation data are based on the number of people who had an opportunity to see, or hear, an advertising message, which is a far different matter than counting those who actually saw or heard. The number who remember having seen or heard is revealed by several types of investigations.

The next concern in making a questionnaire is to get the precise information which will bear on the problem and which, when assembled, will provide some definite and reliable data that will be highly pertinent.

The skillful research man will usually find a way to ask a question so that it will reveal the accuracy and sincerity of the responder. Dr. D. B. Lucas of New York University, in investigating how many advertisements were recalled by magazine readers, secured some prepublication copies of the magazine which he was studying and included a number of advertisements which the respondents could not possibly have seen, along with those they were supposed to have seen and remembered. Questionnaires were excluded in computing results if the one answering made the mistake of claiming to have seen an advertisement which had not yet appeared.

Henry Weaver of General Motors, when asking a question of fact, such as "What made you decide to turn in your old car?" always asks for corroborative evidence, as the name and date of model of the automobile. This enables the editor to discard those which complain about features the car did not have.

The authors, in studying the home-reading newspaper habits of New York City, asked for the features which were preferred. In addition to showing what part of each newspaper was most read, this gave the added value of checking the accuracy of the respondent. This device has also been extensively used by the Crowell Publishing Company and the Macfadden Company in studying the circulation of magazines.

All this tends again to emphasize the difficulty of making a survey that will produce accurate, revealing information. This is emphasized by Prof. Harry W. Hepner of Syracuse University, who in 1933 made an extended study for the McCall Publishing Company to determine the relative influence of the man and woman of the house in buying food and clothing. In his findings he states: "The reader may be interested to know that as much time and effort were spent in learning how to make this investigation as in making it."

Framing Questions to Get the Truth.—Since long before Pontius Pilate's cynical inquiry, "What is truth?" men have puzzled to know when they had exact information and to devise methods of securing data that would be absolutely reliable.

Those are the problems of the research man. Half-truths and factual statements of not more than 50 per cent error are easily secured. To get the truth, the whole truth, and nothing but the truth should be the standard in research as well as in law courts. The general method is the same: question and answer. The chief problem is to secure the right answer to a question that probes for information which reveals the truth. The following rules may be applied to research questions:

1. Make each question so plain and simple that it cannot be misunderstood. It is not enough to make questions so clear that intelligent people will understand; they must be so clear that they cannot be misunderstood.

2. Keep questions clear from expressions that arouse prejudices. "Do you believe in President Roosevelt's court-packing bill?" is an example. The one interrogated might favor all the provisions of that bill, but would not go on record as favoring court packing.

3. Avoid questions that require the subject to commit himself when he is not so disposed. This can usually be accomplished by some such device as: I prefer No. 1 . . . ; I prefer No. 2 . . ; I don't care. . . . To omit an answer leaves more or less doubt Degrees of conviction should be made possible, as in some cases a positive assertion can be distinguished from passive acquiescence.

4. Make the question so specific that all generalizing and mental exceptions will be avoided. "Do you chew gum?" is not such a question. Is the answer "yes" if one has not chewed gum today? For a week? For a month? For a year? The obvious way to avoid confusion with such questions is to guide the answers, as (1) Frequently? (2) Occasionally? (3) Never?

It may be argued that this leaves an opportunity for discrepancy as to judgment. Would all regard "often" and "seldom" the same? In all common sense the slight difference that might occur would affect results very little. It must be remembered that the purpose of most research is to assist in the accuracy of estimates or to provide a basis for estimates. And differences of opinion, as illustrated here, will seldom detract measurably from the accuracy of estimates.

5. It is best to avoid questions involving opinions. This is difficult of application. "What is your favorite color for

an automobile?" Strictly that is not a question of opinion. "Name four colors for automobiles in the order of your preference." That involves opinion, but is primarily factual. One is asked to state one's likes. "What colors for automobiles are most popular?" is a question of opinion for all who have not made a definite investigation. Many thousands of such opinions would be of little value to an automobile manufacturer. Occasionally it may be valuable to get the "general opinion" on some subject such as the value to workers of the Social Securities Act. In such an answer, belief is stated. Belief and opinion are not synonymous to the advertising man. Belief is acquired by conviction; opinion may result from a passing fancy.

6. Avoid questions whose value depends upon the accuracy of memory over a long period. Mr. Weaver issued a questionnaire some time ago in reference to the most and least pleasing approach of salesmen. Answers founded upon recent sales talks were not only more definite and complete than those recalled after weeks or months of delay, but were less affected by the Law of Fusion.[1]

Of course these suggestions for framing questions are far from complete if one is looking for a list of comprehensive rules. However, their observance will aid in getting definite and accurate information.[2]

[1] The recollection of events is colored by the feelings and emotions which were experienced at the same time.

[2] Gallup and Rae in "The Pulse of Democracy," on p. 101, give the following rules for guidance in framing questions:

"1. The questions should be as brief and to the point as possible. Long conditional or dependent clauses tend to confuse people.

"2. The words and phrases should be simple and in common day-to-day use, among all groups in the community.

"3. The questions should not include words which have a strong emotional content.

"4. The questions must avoid all possible bias or suggestion in favor of or against a particular point of view.

"5. The questions should include all the important alternatives which may emerge on a given issue.

"6. Where the individual is being asked to choose between different alternatives, this choice of alternatives must be given as early in the question as possible.

"7. In cases where the choices in a question are lengthy or numerous, it is preferable to list these on a card which the respondent can read. The

Making questionnaires is so extremely difficult that only occasionally is it possible to get them right until they have been revised after being tried out. If the investigation is of any importance, whether by interview or by mailed questions, the authors believe that a tryout should invariably be made before the final form is determined.

The easier it is to answer a question, the surer the answer. Also the more complete the opportunity to answer as the respondent wants to answer, the greater the accuracy of the information acquired.

The writer has before him a questionnaire on spark plugs with 18 different questions, some of them with as many as 12 divisions. All in all, over 100 questions are asked. It was intended as a verbal questionnaire, but even so, very few could be induced to remain attentive all the way through it.

For purposes of easy tabulation, many questions can be asked so that they can be answered by "yes" or "no" or with a check mark. Great care should be taken not unduly to restrict the respondent, however, by limiting him to checking preferences. In the same questionnaire on spark plugs, this question appears:

Which of the following would influence you most to try a new make of spark plug? (1) Reputation of manufacturer for quality products; (2) Recommendation of automobile manufacturer; (3) Recommendation of your accessory dealer; (4) Recommendation of friends.

If several thousand automobile owners should answer that question, the actual truth probably would not be ascertained. With many owners, none of those influences is so potent as the recommendation of the mechanic in the garage. Yet there is no opportunity to indicate that on the questionnaire. Evidently omitting it was an oversight. To avoid such oversights, an opportunity should be presented to suggest "others." Then when the trial questionnaire is made, if other influences or factors are shown to be important, they can be included in the final form. Even then, to give the appearance of fairness, an opportunity to list things that seem important to the respondent should be provided.

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average person is not likely to be successful in retaining a long list of alternatives, or complex questions, in his mind."

If measurements are asked for, it is doubly important to provide an opportunity to check rods, yards, feet, inches, or whatever unit of length is most desired. This will often save an immense amount of computation in tabulating results.

All answers to questions should be carefully read by the editors. There may be such inconsistencies that the ballot is worthless and should be discarded. Again, errors may creep in which an experienced editor will quickly detect and correct. Any changes should be referred to the one interviewed if this is convenient; in any case they should be brought to the attention of the one in charge.

To induce participation from respondents, assurance should be given that under no circumstances will anyone be quoted or his answers be made public without his written consent. Furthermore, the respondent should be assured that he will not be subjected to solicitation because of his participation.

Asking Too Little or Suggesting Too Much.—Marketing research is a practical problem. Limitations of time and money and the absence of perfect techniques make even a near approach to perfection extremely difficult. However, a consideration of the illustrations given below will greatly aid in the accuracy of results. Merely avoiding errors is not sufficient; positive, definite information is necessary. For example, the questions should provide a means of indicating values in likes and dislikes. Few things are enjoyed so much that they could not be improved; few are so disliked that they are absolutely refused.

In investigating a cereal drink, it was found that a large number of people did not like it. That provided little help for the market analyst. Why was it not liked? After many interviews a shrewd observer found that respondents had bought the cereal drink expecting it would taste like coffee; the resemblance was so slight that the drink was disappointing. That information was highly revealing. It was not a positive dislike, but failure of the drink to come up to expectations that had led to disappointment and discontinuance of use. In the case of most people, likes and dislikes, especially of foods, are subject to very little analysis. They either like or dislike and that is all there is to it. Merely collecting such general reactions contributes little or nothing to improving the product.

Failure to get all the information that is available may invalidate results, but so framing questions that the respondent will exaggerate or prevaricate insures untruthworthy answers. Such answers can be used only to make a case that is willfully misleading.

A farm publication recently issued a survey, a mail questionnaire, in which the following question was asked, "What brand of the following foods do you use?" The foods listed were unusual and among them were a number that are certainly foreign to most homes. The same questionnaire asked: "What brands of the following toilet requisites do you buy?" and again listed a great many toilet requisites not used in most homes. Both of these questions are definitely leading and doubtless would result in an overstatement of the extent of use of the articles enumerated. If the investigator is interested only in relative figures, this overstatement might not be fatal. However, in this particular case the figures were projected to the total circulation of the publication and an attempt was made, based upon these leading questions, to show the size of the total market which the circulation covered.

A mail questionnaire sent out by a juvenile publication asked the question: "When mother buys food, does she take your advice on what kind to buy?" Another question in the same questionnaire was, "If Dad bought a car would he be influenced by your choice?" The above questions are not only leading but they are also examples of questions that ask for information which the one interviewed cannot give with accuracy.

A very interesting questionnaire put out by a general publication asked such questions as: "How many of the following does your immediate family own?" and then listed such items as horses, automobiles, motorboats or yachts, bicycles, airplanes, etc. Certainly this question is definitely leading, and the answers, if used to show the economic standing of the readers of the publication, are bound to result in an overoptimistic statement.

A questionnaire attempted to measure the extent of automobile and other forms of travel, by such questions as:

From Oct. 1, 1932, to Oct. 1, 1933, please classify out-of-town journeys of some length (round trips of 70 miles or more) made by automobile whether in your own car, or in a car belonging to someone else. . . . What basic fare per mile would cause you to travel to the extent that

you would spend more money for rail transportation than you do at present? Indicate fractions by the use of decimals.

Even certified public accountants would have difficulty in answering such questions.

Possibly the prize example of leading questions appeared recently in a newspaper account of a political poll just conducted to determine whether voters in a certain election district were opposed to a third term by President Roosevelt. The two questions asked in this poll were "Do you think George Washington was right in refusing to be a candidate for a third term as president?" and "Do you think the tradition against a third term is a safeguard against one-man rule and Fascism?" In answers to such questions, there is little reason for astonishment that three to one voted against the suggestion of a third term.

The One-sided Question.—In countries governed by dictators, it sometimes becomes advantageous for the dictator to secure "evidence" that will indicate how generally governmental policies are approved. So elections are held. Ballots are provided which lead voters to vote as the dictators want them to vote. In Russia, as recently as 1938, the ballots provided only an affirmative vote; an adverse vote was a "spoiled ballot," according to newspaper reports. Results, widely heralded, were that a very large percentage of the votes cast were in favor of the government. Such a recent vote of confidence was approximately 99 per cent.

The following questionnaire, prepared by one of New York City's leading public utilities, was patterned after the dictators' ballots. On one side of the questionnaire was this statement:

To Our Patrons:

Tearing down the Sixth Avenue 'L' now when the Sixth Avenue Subway cannot be ready for your use for five or six years means that in the meantime, at great discomfort and inconvenience, you will be forced to use the present overcrowded rapid transit lines, or the new Eighth Avenue Subway when completed, most of which are from one-quarter to three-quarters of a mile from the Sixth Avenue district.

Safety of the Sixth Avenue 'L' train operation will be maintained during subway construction. It has been done before and we will see to it that it is done now.

If you wish to keep the Sixth Avenue 'L' please sign this card.

Thank you.

INTERBOROUGH RAPID TRANSIT COMPANY
by Frank Hedley
President and General Manager.

The other side of the card offered this:

TO INTERBOROUGH RAPID TRANSIT COMPANY:

As a regular patron of the Sixth Avenue 'L', I oppose its removal at least until a Sixth Avenue Subway has been constructed and placed in operation.

Name ______________________
Address ______________________

Note Kindly leave this card with any Station Agent or other uniformed employee

After these cards were counted, the result was presented to the city's transportation authorities To call them petitions, which they were, was not objectionable. To make the statement that over 95 per cent of the votes handed in favored continuing the elevated until the subway was completed might have been the literal truth—except that they were not votes. It might also have been the vilest deception. In any case, it was absolutely of no value as an expression of the railway's patrons. While few would be so brazen, there have been and probably will continue to be many other surveys as misleading and deceptive as this.

Questions That Get Wrong Answers.—To make out a questionnaire and have someone pass it around, or to mail out a few hundred or a few thousand, and then tabulate the answers, seems so easy that anyone can do it. In fact, a great many have done it and have secured "information" wholly misleading. A few examples will bring out the difficulties met and also will throw some light on the adequacy of the methods used.

One of the great soap companies had been considering the advisability of bringing out a soap powder but was uncertain as to the reception it would be given by housewives A letter

was sent to all its salesmen, instructing them to confer with retailers as to the probable attitude of their customers toward the proposed product. Nearly all reported adversely, and it was not until a competitor had introduced a similar product and made a great success of it that this company discovered its mistake. It took years of hard work and a huge advertising expenditure before it was able to overtake its smaller competitor in the sales of this product.

What was wrong with the original investigation? The short answer is that it was all wrong. More specifically,

1. Salesmen should not be employed for impartial investigations. The better the salesman, the poorer may be his research efforts. The salesman, by habit of mind, is convinced before he starts an interview.

2. Retailers were asked to give their opinions as to what their customers would do. Such opinions are of little value. When a man backs up his opinion by investing money on what he believes, the case is, of course, an exception.

3. Retailers were not in a position to give an impartial answer. In their minds they could see added dollars invested in another soap similar to soaps they already had in many brands on their shelves. No increase, only a substitute for what they were already selling, was the way they interpreted the addition of a new soap.

4. The salesmen were naturally biased. They wanted to find a result that would be pleasing to their customers, the grocers. In the general business contacts they make, there is enough friction. They wanted to avoid the possibility of any new source of trouble. So if the first four interrogated reported adversely, the question put to the fifth would probably be something like this: "Do you believe there would be enough sale of a soap powder to pay for stocking it?" Answer: "No."

Another case: A larger advertiser, not sure of his advertising media, secured the services of a research bureau to make a survey for him. This bureau was selected because its price was lowest. What seemed a suitable questionnaire was prepared and approved by the advertiser. Then it was sent to a few thousand dealers, indiscriminately. The result showed that newspapers were an overwhelming favorite. This was wholly unanticipated. It seemed so illogical that another research

firm was engaged to repeat the investigation. Very little change was made in the questionnaire, yet the results were wholly different. How can this be explained?

In the first case, hardware dealers, drygoods stores, grocers, druggists, jewelers, milliners, etc., were all included, although the advertiser was interested only in drygoods and women's wear stores, and, possibly, milliners.

Of course, no hardware or men's furnishing store voted for women's magazines, which were listed as one of the media from which to select. Then because of the way the question was worded, all, or nearly all, thought that *newspapers* meant the local newspaper, whereas only the metropolitan dailies could possibly have been used by the advertiser making the survey. In the second survey the proper selection of the audience to be interrogated and the revision of one question made the wide difference between the right answer and the wrong.

Another advertiser attempted a little investigation of media on his own initiative. He was interested only in magazines. His questionnaires were sent out on a return post card, and the reader was asked to check the magazines in the supplied list which he read. Several thousand cards were sent out. Returns were satisfactory—nearly 30 per cent. *The Atlantic Monthly, Harper's Magazine, Vogue, Good Housekeeping*, and a number of others were listed by a large majority.

When this amateur investigator took these returns to his advertising agent, with the idea of showing him how he "had missed the best bets," the agent pointed out:

1. If as large a proportion of people read the checked magazines regularly as had so indicated, the circulations of those magazines would be three to four times what it actually was.

2. If no more people read the "hot love" magazines than reported, those magazines would have to go out of business.

3. Probably the ones who read the favored magazines regularly had responded in much larger numbers than those who did not like to reveal their reading tastes. The results secured at a very considerable expense were valueless.

Seeking Evidence, Not Information.—There has been a large number of marketing surveys made to prove something. Indeed, there has been so much of that kind of research that it is all under suspicion. The very fact that the investigation is made

by someone interested in the results immediately places it on the defensive. It is so easy to make a survey seem plausible that space buyers look with suspicion on all the surveys submitted as sales evidence. This is illustrated by a proposition put to one of the authors. The publisher of a group of fiction magazines came to him and asked if he could conduct a research that *would show* fiction magazines to be a good medium for financial advertising.

"Very easily," was the response. "Take lists of the stockbrokers of some large cities. Ask them if they read fiction. Then ask if they read fiction magazines. Finally, ask whether they would see financial advertising if it were placed in the fiction magazines they read." The publisher was fired with enthusiasm. The plan was so simple and so sure to bring him the answer he wanted. When told that the author would conduct no such survey, for the simple reason that he was not interested in conducting research to prove anything and was particularly adverse to trying to prove something he believed false, the publisher was more than ever convinced that "college professors are impractical."

The abuse of questionnaires to get misleading information on the number of radio listeners has been too common. One of these methods is to call up names indiscriminately from the telephone directory, and ask if the radio is in use; if so, what program is on and who sponsors it. The worst form of these reports is as follows: Of a definite number who responded to the telephone inquiry, "To what program are you now listening?" a given number replied, "The AB program." This is misleading and deceptive unless (1) the actual number of calls made are given; (2) the number who did not answer is reported; (3) the number who answered the call but refused to give information is named.

Suppose out of each 100 calls, 75 responded and 25 did not answer. Of those who answered, 9 refused to give information. Then 21 reported that they were listening to the AB program. Actually 21 out of 100 calls were tuned in. But as represented by the report, it would be: of those who answered the inquiry 21 of 66 said they were listening to AB. That is a showing approximately 50 per cent better than the actual result, which was 21 out of 100 calls. That is an instance where a literal

truth is a deceptive lie. It was true that of the 66 who answered the question, 21 mentioned AB, but 100 calls had to be made before 66 were found who answered the question. The 34 who did not answer would be accounted for in an honest count.

At best, the method and the findings are unsatisfactory, because only about 58 per cent of the families of the country have telephones, while over 85 per cent have radios, according to a recent estimate. "The sample is loaded" and no generalizations made upon it are trustworthy. It was such faulty sampling that brought the old *Literary Digest* into trouble This by no means reflects upon other legitimate and accurate surveys made in the radio field, many of which involve the use of the telephone. For a description of one of the best of these see Chap. XXIII.

The Inventory Count.—"Don't expect the 'inventory count'[1] of brand use to give you the the same result as the 'front-door' method and don't ban either or both because they don't agree," said Pauline Arnold in *Sales Management.* She continued, "We have heard a great deal recently about the dependability of the inventory count when used to determine what brands people use. The inventory count has been compared to the front-door method of asking questions on brand usage much to the detriment of the front-door method." These are two different things. It should be noted that in every case the number of people having a given brand on hand is less than the number who state that they use it. The unwarranted assumption from this is that women do not tell the truth through pride, carelessness, or plain indifference when asked about their brand-buying habits. However, there seem to be certain variations among the product groups that make this assumption at least open to question. If one is willing to admit this evidence, the result might be stated thus: the more a product is subject to variation of taste and desire for variety, the better possibility one has of getting an accurate measurement of use by the front-door method. The less these factors operate, the better measure can be arrived at by the inventory-count method. If this is true, then, with any product subject to desire for change it is wiser to determine use by question rather than by actual presence

[1] The inventory count is a check on goods actually found in the home. The front-door method is an interview at the door

Miss Arnold[1] adds this pertinent observation:

It is obvious that a woman is justified in naming herself as a user of Post Bran Flakes if she has them in the house one-third of the time, yet one has only one chance in three of finding them on her shelves at any given moment. Or, stated differently, an actual count of the presence of the product would reveal only one-third of the people who are actual users of it.

In another test made between the front-door method and the inventory method by Macfadden Publications, 934 brands were mentioned when women were asked what brand they used, while only 496 brands were actually seen on the shelves in the pantry. In the remaining 438 cases where the product was said to be used and the brand readily named, no such product was found in the house. In other words, 47 per cent of the brands mentioned as being regularly used were not found on the pantry or kitchen shelf at the time of the interview. A variety of reasons were given for this, but almost all of them summed up to the one fact that today the grocer carries the stock and not the housewife. In 139 cases the product was on the grocery order list or had already been ordered from the grocer. In 112 cases it was going to be purchased as needed.

How Many Answers Are Necessary?—The number to be interviewed is one of the first considerations. The belief of those most active in this work, like George Gallup, Archibald Crossley, and Elmo Roper, is that a very small percentage will give an accurate picture, provided the sample for investigation is truly representative. The old idea that "inequalities will wash out if the number is great enough" was exploded by the fiasco of the *Literary Digest* poll in the Roosevelt-Landon campaign. Weaver still questions extensively, but for other reasons than because he thinks large numbers are necessary to secure accuracy. First, he realizes that, with 26,000,000 or more automobiles in this country, replies from 5,000 would not be highly impressive for the board of directors. So he secures hundreds of thousands and, good showman that he is, piles them by the truckload in the room where the directors meet. Again, the way Weaver handles his questionnaires is believed to be good publicity for the company—so the more, the merrier.

[1] *Sales Management*, Dec. 1, 1935.

Seldom should surveys be governed by the number of inhabitants with the purpose of reflecting the ideas of the populace. The "public opinion" polls are interested primarily in questions that may come before the electorate, so only voters are interviewed, and these in proportion to the electorate rather than to the population. Where the number does not have to be determined in advance, as is the case with so many commercial investigations, the questioning should continue until new votes no longer make significant changes in relationships. That is the best answer as to how many are necessary.

After a few hundred of a particular class are interviewed, if they are highly representative, the result should be authentic. For example, suppose the schoolteachers of a state are to be questioned as to their wish to continue in their position. Those to be interviewed should be divided into classes: kindergarten teachers, intermediate-grade teachers, high-school teachers, and supervisors. If the purpose is to show a consensus, then the number of interviews of each class should be in the same proportion as the number of teachers in each class.

Sometimes it is possible to secure an expression of opinion from a definite audience so representative that a small percentage can be canvassed and the results prove highly accurate. A few seasons ago, Gimbel Brothers of New York got out a questionnaire of 100 questions. They secured about 1,500 interviews. Approximately 20,000 of the same questionnaires, slightly modified to conform to mail requirements, were sent to customers. Personal interviewers did not seek Gimbel customers only, but confined their interviews primarily to women who had a charge account at some New York department store. It was found that answers to the mailed questionnaires conformed closely to the results from interviews. The survey was for determining colors, prices, and styles of women's wear. Stock was secured in conformity with the answers received; that is, if 25 per cent of women contemplating the purchase of a coat wanted a fur collar, one-fourth of coats bought were with such collars. The point is that, if the Gimbel customers had not responded in conformity with the standard set by general interviews, an accurate correction could have been made based upon the report of the oral interviews. If the range of prices anticipated for a coat had run 10 per cent, $100 or more; 18 per cent, $75 to $100; 25 per cent, $60 to $75; 30 per cent, $45 to $60, etc.,

and Gimbel customers had indicated a somewhat lower price, it would still have been possible, on the information given, to make a stock selection far more accurately than by "past experience."

The question here might arise, how was the original number of interviews (1,500) arrived at? There were two practical considerations. One was the amount of money the store was willing to spend for the investigation. The other was an estimate from the number of customers. The reports of 1,500 women were significant; just how significant would appear in summarizing results; that is, if the last few hundred tabulated did not change the trend, results could be said to be satisfactory. If they did change results radically in some items, then either those items could be disregarded, or a further investigation made. If none of the items seemed to show consistent trends, then probably the undertaking was unwise and the costs likely to be in excess of the benefits.

Out of the above a method may be worked out that in a large number of cases will roughly determine the number of interviews necessary to make the results trustworthy.

Answers Should Be in Same Proportion as Classes.—Do not assume that because your outgoing mailing is a true cross section of your market your responses will also be a true cross section. Definite control must be set up to ensure the accuracy of the responses. For example, in a recent survey that came to notice, the following paragraph appeared: "To guarantee the highest possible accuracy all questionnaires were distributed in proportion to A B C circulation by states and cities." Nothing was said about the distribution of the replies to the questionnaire. Distribution of replies is just as important as the distribution of the original sample.

A mail questionnaire seldom, if ever, gives true answers to questions involving pride, social standing, personal habits, etc. Even a trained investigator has great difficulty in securing reliable information on such subjects and he has many aids not present in the mail questionnaire.

A recent survey conducted by a movie publication asked the question: "Is your bodily weight a factor in your selection of foods?" A second question in the same survey was: "If you had to choose between the two, which would you eat, the food you liked best or the foods which are best for you?" How many would answer accurately?

Order of Merit.—A few years ago a well-known psychologist proclaimed a new system for grading the pulling power of advertisements. He believed it to be infallible. He also believed that the same method could be applied to grading poetry, canned fruit, paintings, packages, fabrics, designs of dishware, and other fields where it is desirable to make important selections between different items involving taste.

Of course there is much to be said for the procedure. There is also much that must be avoided in technique or the test may be a complete failure. As applied to advertising, the plan was to submit a series of advertisements to a jury, the members of which were to place them in the order of merit, the best first, the second best next, and so on until the poorest was last. Then an averaging of these ratings was supposed to reveal the order of effectiveness. Evidence of the accuracy of the method was offered in the returns from a series of advertisements in an engineering magazine, which were in approximately the same ratio as the grading by a class of engineering students who had no knowledge of advertising.

With the qualities of tea, coffee, candy, cigarettes, or of the color appeal of different fabrics, this type of rating may be valuable, if controlling techniques are observed. Judging materials for men's neckties should not be left to schoolgirls, nor judging women's dress fabrics to a jury from the hod carriers' union. The absurdity of selecting a jury indiscriminately would be illustrated by having a group of college students rank according to merit several prescriptions for the treatment of lumbago or arthritis. If these were left to the average judgment of medical students, the selections might be better; but if the authors needed treatment for either of those maladies, they would prefer the opinion of one skilled physician to that of any number of students.

If a series of advertisements were prepared for men's suits and these were ranked according to preferences expressed by a jury of college boys, the verdict might be valuable. The boys know much about the appearance of clothes, and the advertisements which stood highest in the award might be expected to produce the best returns. But to ask these students to judge the advertisements, of which they know nothing, would be a waste of time. Unless such a jury were made of advanced

students who had given much time to the study of advertising, their combined verdict would be of no more value than the opinion of any one of them. Averaging what people don't know is like averaging zeros.

One of the chief requirements of the order-of-merit system is to get a suitable jury, and suitability includes size. Sometimes this is impossible. The next best thing is to submit to the jury only such questions as the members are competent to answer. A jury of farmers might be able to pass on the merits of plows offered in a series of advertisements. If these were all written about one plow, under different names, then the advertisements for the favored plow evidently would be the most resultful when published. If the jury were made up of men who had had long experience in writing copy for agricultural implements, they might safely be asked to pass on the merits of the different advertisements.

An old story recounts how a young schoolmaster outguessed all the experienced drovers present in estimating the weight of a load of hogs. He waited until all the others had expressed their opinions, averaged these and gave the answer as his estimate. He probably would have been far less accurate if he had averaged the guesses of his pupils. The order of merit is always good when the jury is good, but averaging the ignorance of any number of people does not arrive at a wise conclusion.

This method is chiefly valuable in considering matters of general but not expert tastes, such as comparing printing types. Comparative legibility can best be decided by a vote of those who read. So with the length of coats, the width of the brim of hats, flavors for ice creams, the strength of coffee and tea. All are matters of common taste, and a jury made up of a sufficient number of participants will be dependable for the time and place.

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CHAPTER IV

Market Analysis

Market Analysis Is Many-sided.—The term "market analysis" is loosely used and generally without definition. Many apply it to some phase of investigation, without realizing to how many other angles of the subject it might be applied For the management of a business, market analysis relates to general policies. Will public warehouses with dealer salesmen be employed? Will brokers and wholesalers be entrusted with the distribution? Will district offices be established, and, if so, must goods be stocked in each district or can public warehouses take care of the storage problem? How can sales efforts and production best be coordinated? These and similar questions require market analysis to obtain solutions satisfactory to the management.

To the sales manager, the effects of geographical and climatic conditions in arranging sales territories, terms of sale to get the most efficient cooperation from distributors, and evaluating the marketing potentials for fixing quotas and distributing the advertising budget are subjects which require the most exacting market analysis.

The advertising manager shares these responsibilities with the sales manager and in addition analyzes his market for various sales appeals, for effectiveness of coverage by the various media, and for a comparison of advertising costs for the different types of campaigns.

Transportation systems and costs give the traffic manager plenty to think about, and he must do some active market

analyzing in order to keep his department functioning to provide the greatest economies.

The treasurer and the credit manager have many problems in common. Their market analysis looks to the future as well as to the present. What will become of the village that has sprung up during the constructing of the irrigation canals? Will the stores be able to continue? What of business conditions in general? Should there be a tightening of credit, or is a period of expansion at hand that will justify an optimistic extension of credit to take care of increased business? To what extent are new inventions going to interfere with present sales? What about installment selling; what are the best ways to finance the great volume of credit involved? Are there any definite trends in styles, habits, or customs that are of immediate importance to the business? This last question will provide opportunities for the analysts of every department to study. To the treasurer, market analysis may mean primarily an investigation of conditions under which the firm has to sell its securities.

Does not this hasty review of the ramifications of market analysis indicate that the term is almost as broad as marketing itself? The authors will continue to use the term as it is commonly used—meaning an analysis to tie in with or supplement field surveys or consumer research. But we shall place the principal emphasis on evaluating markets. If sales and advertising efforts are to be applied at the place, at the time, and to the extent that will produce the greatest results, the process of evaluation must be continuous and thorough.

In a very true sense, market analysis has to do with interpreting facts secured by field work. That, of course, involves recognizing the significance of the information uncovered. The market analyst will supplement the data gathered from the field with available records and from such other sources as he can draw upon. To do this with thoroughness and accuracy requires both experience and a penetrating, logical mind Not always should the analyst be held to the responsibility of providing remedies. Like his prototype, the medical diagnostician, his work logically ends when he presents a clear picture of conditions and of the influences which have produced them.

Three Primary Elements.—A market is a group of people able and willing to buy. That is simple and plain and is widely

accepted as a definition. An analysis usually proceeds to reduce the thing to be analyzed into its elements. What is there in the above statement that lends itself to further simplification or clarification by breaking it up into parts? First there must be something to sell, a product or service. This was extensively studied in a former chapter. If there are buyers, of course there must be sellers. Aside from the original producers, these are middlemen. Who are they and how efficient is their selling? This is the second factor to be considered. The buyers, that group of people who are to be supplied, constitute the third factor in analyzing a market. Every sales campaign has these three factors to consider. When each is properly dealt with and the problems solved that pertain to each, then the spade work is complete and the foundation is ready. To attempt to say that one of these elements is more important than the others is like deciding which leg is the most significant of a three-legged stool. If any one fails, almost surely all will fail.

The product, as it is related to the consumer, has been considered; now another factor, the distributing agents, will be studied. Methods will be investigated for measuring the extent of the markets to which products are offered. As the authors see it, market analysis consists of evaluating the willingness and ability of a group of people to buy, together with appraising the efficiency of the distributing agents in order to judge to what extent they accelerate or retard the flow of goods entrusted to them.

Climate, habits, tastes, superstitions, and education play a large part in determining what group of people will buy or refuse to buy. It is not a matter of wealth alone that determines the size of a market. The availability of merchandise is an influential factor also; and *availability* may include the attractiveness with which goods are offered as well as their physical presence. Price is one of the most potent factors in determining the extent to which an item may be sold. These are some of the important considerations in judging the efficiency, or lack of it, when distributors are being compared.

Before Selecting Distributors.—The general consideration involved in selecting distributors has been discussed in Chap. X. As part of the investigation before the final decision is made, it is well to know the costs of operation. By no means is the

efficient jobber or broker to be determined merely by the amount it costs him to run his business. Rather, the question is how much sales promotion can he put into each dollar he charges his customers for serving them. For example, one wholesaler may be able to have his representatives call on retailers for as little as $3 a visit, while another in the same field allows $10 for each call. It is conceivable that the latter is more efficient. Suppose the $3 man is a mere order taker. He copies the items read to him by the buyer from the "want book," then goes his way with an order of $10 to $15. He has done no real promotive work, and the dealer might have mailed in his list of items quite as well.

In contrast, the $10 man may have given the buyer so much information about the goods, about stockkeeping, about store display, and about advertising that he makes a full-line customer, rather than merely taking an order for some articles the store feels that it must have because there will be calls for them. The final answer as to the efficiency of the two is the cost of selling goods over a period of two or three years' time, or even longer.

It is unnecessary here to review what is said when channels of distribution or cooperation with distributors are considered. But what the analysts will find it necessary to investigate is the human element. It is important both in the wholesale and in the retail fields. Enthusiastic, efficient, and energetic efforts of the selling agencies that handle the goods after they leave the factory should be secured, if possible. An analysis should show to what extent the manufacturer enjoys this cooperation and to what it should be attributed. If distributors are not enthusiastic, this should be discovered, the reasons ascertained, and remedies prescribed so far as can be done.

Research on Distributors.—John Allen Murphy[1] summarizes his activities in research for an advertising and sales agency as follows:

In our experience fact finding is used most frequently in these 21 ways:

1. To find why some customer is buying much more than the average customer in his class.

2. To find out why old customers, who have been buying about the same amount of the product for years, suddenly begin to buy a great deal more of the product. Frequently, there is much significance in such a situation. It may mean that competitors have raised their prices

[1] Marketing counsel for G. M. Basford Company.

or lowered their quality or are falling down in their service. It may mean that customers have found new ways of using the product. Or if customers are distributors, it may be that they have found new markets or have developed methods of selling more to old markets.

3. To find why some salesmen are selling much more than the average salesman. Have they better territories or are their methods more effective? Why? Why can't the other salesmen use these methods?

4. To find why there is such disparity between the results obtained from different distributors. What do the good distributors do that the poor ones do not do? Why can't the poor ones do what the good ones are doing?

5. To find why there is such disparity between the results obtained from different parts of the country? Do the sales potentialities in the various sections justify these differences? If not, what can be done to fill in the valleys in the sales map?

6. To find why the results from different industries of about equal potentialities vary so much. Is the marketing plan to blame? Are the selling methods responsible? Has the advertising anything to do with the case?

7. To find how to introduce a product.

   A. A new product to a new industry.
   B. A new product to old industries.
   C. An old product to industries to which previously it had not been sold.
   D. To add a new product to an old line.

8. To find why certain big orders were lost or why good customers stopped buying.

9. To get the data for the compilation of sales manuals, sales kits, and other sales literature.

10. To get the data for a sales compensation system.

11. To get factual information about installations for use in advertising copy.

12. To get the information needed for the establishment of a sales control system.

13. To get data for sales quotas.

14. To get data for an inventory control system.

15. To get data for sales training courses.

16. To find if there is something wrong with the product or its design or its packaging or the units in which it is produced or the method of shipping.

17. To find what items in a line are unprofitable and to learn if they can be safely eliminated.

18. To find what new products the markets may be demanding or what changes the markets may want in present products.

19. To find out how a specific company is trending with respect to its industry and with respect to business as a whole. If it is slipping, find out why and ascertain what can be done to stop the trend.

20. To find why a whole industry is slipping.

21. To find how to adjust a business to economic and social changes.

What Analysis Should Reveal.—Market analysis takes the data collected in the consumer survey, or field research, and applies them to the statistical information already collected or available in books of reference. Sales promotion, using the term in its broadest sense, should be based upon the following factors:

1. The predicted reasonable consumption for a unit of population—1,000 or some multiple.
2. Trading areas, which will differ in many respects. The ability of each to absorb the offering should be determined in comparison with the basic unit of population.
3. The effort in advertising and selling necessary to sell a unit quantity. This can be determined best by trial campaigns. A high degree of accuracy will require much investigation.

To get a base line for comparison, it is well to consider the largest available district. The whole country frequently serves best. The per capita consumption of tea is approximately 12 ounces for the United States, while the per capita consumption of coffee is approximately 10 pounds. Each family spends a little more than $1 a year for extracts and a little less than that for spices. Similarly, sales of most staples are available. The experienced market analyst can closely approximate the sale of fountain pens, watches, cosmetics, playing cards, chewing gum, men's hats, and other items of wide sale.

Each trading area should be studied in comparison with the average taken as a base. How much is it above or below the standard? It will be obvious that there are many conditions that affect the sale of goods in the various trading areas. Antifreeze mixtures for automobiles is a striking example. It is evident that the further south one goes the less will be the sale for each 100 automobiles. But it should not be assumed that an average or mean temperature will fix the sale limitations. Fear of the occasional frost may create a limited market. Oil burners are popular as far south as Florida and the Gulf of Mexico.

Many people install them who would not think of putting a coal furnace in the house. Oil burners will not sell so readily through the south—even to people of equal wealth and occupying houses of comparable appointments—as in states bordering Canada, but there will be some sale for them. It is the purpose of the field research to ascertain approximately who will be prospects, then the analyst will determine how many such prospects there are.

Market Index Defined.—"A market index is a system of indicators which reveals the relative business activity of different territories or their probable ability to absorb goods or services." It has many uses, among which are setting sales quotas, apportioning the advertising budget, and forecasting sales.

For goods or services consumed in proportion to population, there would be no need for a market index. But there are no such goods. If there is one item in the hundreds that go to make up the supplies of each family that has an equal per capita consumption, the authors have not been able to discover it. Even salt, a product whose sale is not influenced by economic conditions, has as great consumption in Chicago as in New York, a city twice as large. Rhode Island with a population about the same as South Dakota uses only about half as much salt. The meat-packing industry explains the difference in consumption in the two cities and the amount fed to livestock the difference between the two states.

Chewing gum, cigarettes, milk, bread, and sugar are other items which at first flash might seem to have approximately the same consumption, but investigation will show that there is a wide difference in different parts of the country.

A perfect market index would reveal accurately the relative ability and willingness to buy every product in two or more territories under consideration. Again there is no such thing. However, it is possible to construct an index that will be far more accurate in predicting results than a comparison of the populations.

The idea of the index can be easily illustrated. In the city of Alpha, with 50,000 population, there are twice as many dentists as in the city of Beta, with 35,000. The sale of dentifrices will be in the same proportion—2 to 1—not in proportion to population. A reasoned conclusion is that most high-priced, or luxury,

goods will sell in the same proportion as the number of dentists. That is, the residents of Alpha will buy twice as many high-priced automobiles as in Beta. So with watches, imported rugs, air-conditioning plants, sets of encyclopedias, and other like products. This does not mean that the dentists will provide the market in either case Rather the explanation is this: dentistry is a high-class and expensive service. Where people buy sufficient dental attention to support dentists, they will also buy luxury goods and roughly in the same proportion. All things being equal, that would be a reliable index, but in comparing different populations "all things" are never equal; hence the difficulty in making trustworthy indexes.

Making a Market Index.—A few months before this was written one of the authors was given an assignment of analyzing the market for a certain beverage Time and funds were limited It is quite probable that with further study a more accurate index could be computed, but probably the same, or a similar method, would be used

First, the per capita consumption was found to be 14 gallons a year for the United States Results of field studies at hand indicated that the consumption depended, among other things, upon

1 The amount of urban population Sales are much larger in cities than in country districts of comparable population

2 Proportion of foreign-born Those of foreign birth, and their children, consumed far more than native Americans This applies particularly to those of Nordic rather than Latin descent

3 Buying power of the district Where other goods sold well, the market was better than in districts where restricted retail sales indicated a low buying power

The amount of hot weather was not a general factor. The per capita sale in the Gulf states is the smallest in the country. But in hot weather more is sold than in cold, so a seasonal correction is necessary That is, in comparing figures for different states, the data should be for the same month, or else a correction is necessary.

So retail sales and percentages of foreign-born and urban population were chosen as factors for computing an index. As figures were more readily available in a slightly different form, the method was made to accommodate available statistics.

For example, take the state of Wisconsin; 49.3 per cent of its population is of native parentage, as compared with 79.3 per cent for the whole country. Hence, for each 1,000 population, Wisconsin has 2.45 times as many inhabitants of foreign parentage as the average for the country. If that were the only, or the controlling, factor, it would be expected that Wisconsin would have a per capita consumption of 2.45 × 14 gallons (the average for the United States), or 34.3 gallons. But there are other factors which were just pointed out

In the United States 56.2 per cent of the population is urban; in Wisconsin it is 52.9 per cent, about 94 per cent of the average. Computing 94 per cent of the 14—the basic average—gives 13.16 gallons. So if the per cent of urban population were the only, or the controlling, factor, Wisconsin would have a per capita consumption of 13.16 gallons.

Per capita retail sales for the country are $400; for Wisconsin $421, or about 5 per cent above the average. Again if retail sales were the only, or the controlling, factor, the consumption in Wisconsin would be 5 per cent above the average, or 14.7 gallons.

If these three results are added together—34.3 + 13.6 + 14.7 —the sum is 62.6. Divide by 3, as 3 factors were used, supposedly of equal importance, the final number is 20.7. So it would be expected that the annual per capita sale would be 20.7 gallons. As accurately as recorded sales could be computed, the consumption was 23.2 gallons, or an error of 7.2 per cent. That is a rather large error, but with other states the index seldom showed an error of more than 5 per cent, which is good for an estimate.

Suppose a manufacturer, in analyzing sales, finds that for the past year he sold 8 quarts per capita in Wisconsin, the heaviest consuming state, and 7 quarts in Pennsylvania, with 6 quarts in Delaware, how can he compare the results of his sales-promotion activities in these different states? Of course, if the combined advertising and all sales efforts had been equal in all three, then actual sales would give an accurate base with which this manufacturer could compare his own sales. This equality should not be assumed, for it does not exist. Lacking that as a base, the index can be applied as follows.

Pennsylvania has retail sales of $395; 67.8 per cent urban population; and 58.8 per cent of native parentage. Computing as in the case of Wisconsin, expected sales in Pennsylvania would be 17.22 gallons.

In Delaware retail sales are $432, 51.7 per cent of the population is urban, and 75.4 per cent is of native parentage. Computing as above, expected sales would be 14.8 gallons.

In Wisconsin the manufacturer under consideration sells approximately one-tenth of the supply: 2 gallons out of 20.7 as computed by the index. In Pennsylvania he sells 1.75 gallons out of a total of 17.22 gallons, or slightly more than one-tenth. In Delaware he sells 1 5 gallons, or 6 quarts, out of 14.8 gallons, or just over one-tenth The conclusion would be that the advertising and selling efforts in all three states were of approximately equal efficiency. That conclusion could be substantiated except as the competition might be much more active in some territories than in others. If competition is more active in Wisconsin, say, than in Delaware, then the sales force in the former state is doing a better job, as in each the firm gets 10 per cent of the business.

This is a rather complicated index and at best will reveal only an approximation of the actual results. Yet as tried out by the list of states, it proved surprisingly accurate. The sales manager who is relying on such a general method of computing a buying-power index should test it periodically to avoid errors resulting from changing conditions.

Many times the index may be very simple. For spark plugs, the number of automobile registrations should provide a simple and very highly accurate base for estimating sales. If the number of spark plugs sold for each 1,000 cars could be discovered for any territory, the number registered in any other territory should give the approximate possible sales. It would follow this proportion: sale of spark plugs in district *A* is to the sale of spark plugs in district *B* as automobile registration in *A* is to the automobile registration in *B*.

Harvesters might be expected to sell in proportion to the acreage of grain. But here the size of the average field would be an influence, as headers are not practical in any but large fields. The total acreage in fields above a minimum size, below

which harvesters would not be profitable, would provide a suitable base. This might be difficult to find.

The sales manager for Corona typewriters found that the circulation of the *Saturday Evening Post* provided a ready-made index for his portable typewriters; that is, where this magazine sold, the Corona also sold in a constant ratio. To divide the sales of the *Post* in a given district by a *constant* number accurately gave the possible sale of Coronas. This *constant* was found by dividing the other way round. The *Post* circulation for a given district was divided by the sale of Coronas in that district, and this was repeated for many different districts, always with approximately the same result. So it was assumed that that condition would always prevail, and new dealers were given a promise of definite sales founded upon the formula that had been proved. Fortunate, indeed, is the business which can find an index so simple and so reliable.

As will be seen later, magazine circulation sometimes does provide a reliable index, particularly for goods that are extensively advertised.

Three Factors to Consider.—Ideally a market index should present three factors: one to indicate ability to buy; one to show willingness to buy; and one to indicate the condition of business. When business is good most people buy more liberally than when it is slack.

There is a vast difference between ability to buy and willingness to buy. This is convincingly presented in a study of two cities, Cleveland and Cincinnati. The showing was for some years ago and may present a very different picture from comparable data ten years later.

	Cleveland	Cincinnati
Number of families	218,519	144,622
Circulation 8 magazines	162,814	87,420
Families per magazine	1.34	1.65
Ratio of magazines to United States	1.39	1.12
Number of income-tax returns	63,566	65,307
Families per 100 tax return	348	221
Ratio of tax returns to United States	1.05	1.62
Automobile registrations	108,905	36,185
Families per 100 automobiles	200	399
Ratio of automobiles to United States	1.12	57

Of the above figures the number of income-tax returns is the most significant in revealing the ability to buy. With only three-fourths as much population, Cincinnati has a larger number than Cleveland. In the former city, there are 10 for each 22 families; in the latter, 10 for each 35 families, or about 63 per cent as good a showing. But with magazines and automobiles, which indicate money spent, Cleveland has a long lead, 1 automobile for each 2 families, while Cincinnati has only 1 for each 4 families. While each 134 families of Cleveland buy 100 magazines, in Cincinnati it takes 165 families to buy the same number Here is a striking difference between ability to buy and willingness to buy.

To return to the ideal requirements for an index, it may be pointed out that from among the readily available statistics the following offer possibilities in considering buying ability:

Native white or preferably literate population.
Number of income-tax returns
Number of homes owned
Number of home telephones in use.
Assessed value of real estate.
Number of automobile registrations.
Amount of fire insurance in effect.
Amount of life insurance in effect.
Rent paid by families

The idea of considering ability to buy as well as actual buying is that sales-promotion efforts may be highly resultful in a district of wealth, even though that district has a very great habit of thrift. Sales potential need not necessarily be a practical guide in making sales quotas, while it is altogether logical to use potential in apportioning the advertising budget to different districts.

The inclination to buy is perhaps best reflected in sales actually made. It is assumed that where people have bought liberally before, they will continue to buy in the same way. This is not always the case although extremely thrifty people can be depended on to continue as limited buyers. With those inclined to spend all they make, a radical change in business conditions may force a severe curtailment in buying, while with those who are well financed but frugal, the plane of living will be little affected by ordinary fluctuations in business. The following are suggested as being typical fields for which statistics are easily available:

Magazine and newspaper circulation.
Retail sales.
New automobile sales.
Number of dentists.
Theater attendance.

Business conditions, which fluctuate from year to year or even from week to week, are reflected among other things by:[1]

Bank debits.
Carloadings.
Sale of electric current.
Sale of postage stamps.
Bank clearings.
Transactions on the stock exchanges.
Machine-tool sales.

The idea here is to compare a period of time, as a given month, with the same month in other years. By selecting a factor which represents each of three stated conditions, it is possible to arrive at a conclusion that will approximate results. It substitutes a rough measurement for guessing. By careful estimating, in which the market index plays such an important part, a sales manager is in a position to anticipate conditions for some time in advance. He can avoid serious overstocking, or, equally serious, understocking. So also he can govern his promotion efforts to meet economic conditions that so widely affect business.

A Three-factor Index.—Suppose an index is required for a low-priced automobile. Income-tax returns may be taken as one factor, representing ability to buy; automobile registrations as inclination to buy. Those who have bought cars will continue to buy, it may be assumed, unless the economic pressure becomes too great.

Suppose Texas and New Jersey are taken as sample territories. Texas has 0.047 of the passenger cars of the country and makes 0.026 of the income-tax returns. Suppose that business conditions in Texas are represented as 0.90 compared with the whole country. In the sale of new cars this state's quota would be calculated as follows: $0.047 + 0.026 = 0.073$; $0.073 \div 2 = 0.0365$. From this it appears that if business conditions were normal, and a manufacturer was producing 10,000 automobiles, he might expect to sell 365 in Texas. But as we have assumed that

[1] *Federal Reserve Bulletin, Dun's Review, Wall Street Journal,* and similar publications supply a wealth of this material.

business conditions there are 10 per cent below normal, the index should be corrected and is $0.0365 \times .9 = 0.03285$. The number of cars apportioned to the dealers of the state would be $0.03285 \times 10{,}000$ (the total number available), or 328.[1]

It might be urged that inasmuch as an automobile is under consideration and as registration figures are available, why should not Texas be given a quota in proportion to cars already bought? Sales of new cars are being considered and this state does not take 0.047 of new cars. The number of automobiles in Texas from 10 to 15 years old is abnormally large. While these all count on the registration list, they do not make a very promising group of prospective buyers of new automobiles. This is the kind of influence in buying that usually requires field investigation. Market analyses made from desk studies almost invariably trip over some condition that cannot be found in records.

New Jersey presents a very different problem. It has about 0.045 of the country's automobile registrations, and makes 0.056 of the income-tax reports. Assume also that business conditions favor this industrial state to the extent of 10 per cent above the average for the United States. The problem then is solved in the same way: $0.045 + 0.056 = 0.101$; $0.101 \div 2 = 0.0505$. Then add one-tenth of this and we have 0.0555. Therefore we should expect New Jersey to take 555 of the new automobiles. This is a far different and more accurate result than if new sales had been based on registrations alone, which would have given Texas 470 and New Jersey 450. Instead it is 328 to 555.

Factors for Index Analyzed.—Since the three business censuses, retail sales are commonly used as the one and only element for evaluating markets. For many products this may prove highly

[1] For those who are disturbed by this seemingly unorthodox way of "adding unlike numbers" and "averaging percentages," the following explanations may be made. Assume that new automobiles will be sold in proportion to automobile registrations, then 4.7 per cent of the new automobiles will go to Texas, as it has 4.7 per cent of registrations. Another assumption is that the new automobiles will be distributed in proportion to the number of income-tax returns, then Texas would be expected to take 2.6 per cent of the output. Under the first estimate, Texas would be apportioned 470 automobiles; under the second, 260. An average of these two apportionments is 365. The logic of this is elementary. If other factors were to be used in the index, such as magazine circulation, retail sales, savings deposits, etc., the methods and the logic would still be the same

satisfactory, but for apportioning the advertising budget and for balancing between urban and rural markets it is not reliable. A family in one of the large cities with an income of $2,000 a year is not a prospect for more than the bare necessities. On the other hand, a farmer in an agricultural district with a cash income of $2,000 is regarded as "well-do-do." He will have two or three automobiles, a radio, and other home luxuries. He and his wife will probably spend the cold winter months where the climate is more salubrious.

These are some of the things that account for the difference: the city family turns over from one-fourth to one-third of its income for rent. Vegetables, fruit, and dairy and poultry products represent another large slice of their income. The rural family may provide these at so little cost that it is nominal. There will be no rent for a place to live. If it is a one-crop farm, and these foods are also bought, they will cost only about one-third as much as in the cities. Eggs sell at 12 cents a dozen through country districts, when they are 28 to 35 cents in cities. This is typical. Such incidental expenses as carfare and lunches for those working and for the children at school are not part of the farmer's regular and unavoidable outgo. Clothes and, particularly, laundry bills are much less on farms. Consequently per capita retail sales in rural districts often look abnormally small.

All these things bought in stores in the cities at much higher prices than they cost in rural districts help to make a good showing for retail sales, but they take much of the money that might otherwise be available for things in the luxury class. The fact that thousands of families have to spend more than 30 per cent of their income for food and 25 per cent to 35 per cent for rent is an indication that they are not prospects for sterling silver, Venetian blinds, encyclopedias, or pleasure trips.

Then there is the tendency to go to larger cities for the more expensive shopping items, like fur coats, heavy furniture, jewelry, imported rugs, and other luxuries. In so far as advertising is concerned, the sale may be originated in the home, but the actual transaction may be consummated in a city store 100 miles or more distant.

The same conditions tend to make income-tax returns too heavy in the urban districts as compared with the rural. On the

other hand, automobiles are much more numerous in the country than in cities and if taken as an index factor are too heavy in farm districts. For example, Kansas has approximately as many automobiles as families.

As stated above, it has been common practice to add the value of farm products, the value of ores and other minerals taken from mines, the value of fish sold at wholesale, and the value added to manufactured products by processing, and assume that the total is the income of the political division under consideration. The difficulty of this is that on many large-scale operations, like flour milling, a small crew of men can handle an immense amount of grain and flour. The "value added by manufacturer" in this case is due to the milling plant rather than to the labor. The men who own the mill may live many miles away from it. That is also true to an even larger extent with mining. Gila County of Arizona is commonly rated as one of the rich counties of the country on the basis of having a large per capita income, which results from mining proceeds. As a matter of fact, the mine owners are primarily nonresidents, and, when the division of money between the laborers and the mine owners is shown, the amount available for spending by residents of the county is so reduced that Gila County drops to a second- or third-rate market. Similar conditions prevail in the fishing industry and to a less extent in agriculture, especially where most of the farming is done by renters. In general the attempt of the Federal census to show income has not been very successful The attempt to show "average wealth" was so inaccurate and misleading that it has been dropped from the census reports.

The number of home telephones is sometimes used as a factor in making a market index. Evidently those who have telephones, like those who have charge accounts at the leading stores, constitute a group which makes valuable customers. But it is heavily loaded in the urban districts. "Party lines" in the rural districts are essential, and, when the number on one line increases to six or eight, it is less serviceable. Furthermore, construction costs are much higher than where population is denser. This is partly offset in cities, as many apartment houses provide a single trunk line with extensions to the different apartments. Thus one listed "home 'phone" may represent many families. Finally, the number of telephones per 100 families varies unaccountably.

For the country as a whole it is 40; in Philadelphia, 42; New York City, 50; Albany, 66; and Los Angeles, 75. Where telephone receipts are available they seem to offer a suitable factor in computing an index for many products. A comparison of telephone receipts of one year with those of another also gives a definite indication of business activity.

The number of automobile registrations, as mentioned above, is often used in preparing an index. This tends to overemphasize the rural districts, even when only passenger cars are considered. For example, in Kansas, a predominantly rural state, there are 294 to each 1,000 inhabitants; in New York there are 185; in Rhode Island, 217; and in Massachusetts, 184. The sale of new cars might be more accurate for some products, but these data are not always available except at considerable expense, particularly for counties. It should be emphatically impressed upon the amateur analyst that the smaller the area for which data are taken, the more accurate the index will be. Possibly a combination of automobile registrations and retail sales might work out satisfactorily. Income-tax returns have been used in combination with automobile registrations with satisfactory results. The number of income-tax returns is so small when contrasted with the number of automobiles that in small areas it may not be representative.

Magazine circulation, when a considerable number of magazines are used, makes a very satisfactory index for articles of small price and wide distribution. If farm papers are also included, it is possible to work out a highly representative index founded on circulation. The difficulty here is in making a judicious selection. Some magazines have their circulations restricted almost wholly to cities. *Esquire*, *Harper's Bazaar*, *The New Yorker*, and most of the "class" magazines have few readers outside the cities. In adding farm-paper circulation, it is extremely difficult to know when there is just enough to make the list representative.

The idea of multiplying the number of factors "in order to have everybody covered" does not appeal to the authors. It seems to them to violate the fundamental idea of the index, which is that the proportion of a population which buys any article of luxury will buy some other luxury in about the same proportion. Of course there are exceptions in both directions. Some people indulge in favored articles out of their class. Mechanics like to

have good watches and commonly make sacrifices to get them. Musicians will sometimes skimp on food and clothing to save for a quality piano or violin. On the other hand, some people of wealth habitually buy goods of lower quality than would be expected. The authors know a man of such substantial income that he would be expected to own two or three automobiles, but he does not own any. Another wealthy man lives in a five-room house and keeps no servants. Still another—the head of a well-known corporation—is said to set $2.50 for the top price he will pay for shirts. Many others buy out of their class, some spending more for their favorite product, while others pay far less than the average for their class. However, it has been found that with few exceptions they "wash out" or come so nearly to an average that they make only a negligible error in the computed result, as their number is so small.

Field Investigations Necessary.—If any district does not conform to the theoretical result, it is far wiser to investigate than to despair of the method of estimate. Of course no index will be perfect, but one that is well constructed will give estimates so much more accurate than any other known method of gauging a market, short of actual counting, that it is a valuable tool in almost every sales office.

Such variations as LaGrange County, Ind., should be expected. It is one of the richest counties in the country which is strictly rural. Yet both life and fire insurance are very low. Magazine circulation is almost nonexistent, especially for fiction magazines The sale of jewelry is restricted to plain silver watches, unornamented clocks, and tableware. The explanation is that most of the people belong to the Mennonite Church and do not believe in carrying insurance, reading fiction, or possessing articles of decorative value.

More than half of the census population of Dannemora, N. Y., is in the State's prison there. El Paso, Tex., has four Mexicans in each ten of its population. The district of Washington west of the Olympic Mountains commonly has rainfall on about 250 days each year, while in Preston, Ariz., a hotel once advertised that it made no charge to guests on rainy days. As it rained only four to six times a year, and some years not at all, the offer was not so generous as it appeared. San Francisco and Sacramento are only 90 miles apart, yet women wear fur coats the year round in the

former, and a long, hot summer in the latter makes any coat a burden. Loss from lightning or windstorms is practically unknown from San Diego, Calif., to Bellingham, Wash. In the northern states it takes about three tons of hay to feed a cow during the winter, while cows forage for their feed all winter along the coast of the Gulf of Mexico, yet thousands of gallons of fluid milk are sent daily from New York state to such cities as Jacksonville and St. Augustine during the winter months. Whether water is "hard" or "soft" very definitely affects the kinds and quantities of soap used, and the areas where each type of water prevails are extensive. These are just a few of the many different local conditions that affect markets.

Sometimes it is impossible to get an accurate index. This tends to be true of style goods, especially those in the nature of a fad. Cigarette holders, walking sticks, spats, and a large number of industrial products are of this class.

Again there seems to be a plethora of good index material. The owner of a chain of gas stations can take the sale of gasoline, the mileage of hard-surfaced roads, or the number of automobiles, or a combination of them. Perhaps none would be accurate, as the tourist travel in some districts is so much more extensive than others.

The consideration of trading areas and of establishing district sales offices and warehouses is logically a part of market analysis, but as this involves detailed consideration at some length, for the convenience of the reader it is discussed in a separate chapter.

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CHAPTER V

Policies with Distributors

Establishing Policies.—Whatever channels of distribution are followed, there are certain definite programs that should be formed and carefully adhered to. If one is to sell for cash, there should be no exceptions, or the rules governing permissible exceptions should be so plainly stated that concessions would be granted automatically and to all similarly situated. In other words, the establishment of a policy means the adoption of a program which is not to be deviated from, except for unusual reasons with the executives' approval.

In the following paragraphs a number of different policies are discussed at length. It is possible that in an extended territory a large manufacturer might want to follow different policies. That, however, would be an exception, and such an arrangement would have to be adopted only under circumstances which make it imperative.

In the discussion of the following policies, it is assumed that they apply to different channels, whether selling to wholesaler or to dealer or to the consuming public. The exclusive agency has certain definite restrictions, and, if it can be used successfully, the contracts under which it operates should be drawn with such care as to provide for all ordinary contingencies. Once this contract is adopted, it should be of standard form and there should be no variations, except those specifically provided in the general instructions. That statement also should be applied to the other policies which are discussed.

Where more than one channel of distribution is employed, it is difficult, but by no means impossible, to follow a uniform policy.

As an example, the International Silver Company employs mixed channels. It sells direct to hotels, steamship lines, dining-car services, etc., to large jewelers, and to wholesalers. By limiting the size of orders from each source, it is possible to fix a uniform classification and establish a definite policy.

Nature of an Exclusive Agency.—Sometimes a producer finds it advantageous to turn over the distribution of his products to a single firm. This may be either a wholesaler covering a region or a retailer who caters to a shopping area. It is evident that, with most products, this restricts sales. On the other hand, by permitting one firm to be the sole representative, a degree of cooperation and vigorous sales promotion is obtained which no distributor could be expected to make if some of his competitors were able to share in the business he was able to develop.

Where a wholesaler is given an exclusive agency, he usually extends the same privileges to his customers; that is, he will sell to only one or a limited number of retailers in one city. Where the city is large and one retailer would scarcely hope to reach a majority of the buyers, it is common to issue what is sometimes called a joint exclusive agency. In a large city there might be four or five different stores each handling the product, but not in the same shopping areas and therefore not directly competing with each other. This plan is followed both by manufacturers and by wholesalers in extending exclusive agencies.

When a wholesaler or retailer takes the whole output of a factory and sells it under the distributor's brand, there is nothing that resembles an agency. But when a producer permits a product bearing his brand to be sold exclusively in one district by one or more distributors and refuses to sell others in that trading area, the relationship somewhat resembles that of principal-agent, as with the sales agent.

Where a manufacturer has many products, as office supplies and appliances, he may permit the supplies to be sold in the open market, while the sale of the appliances is restricted to a chosen distributor who is best equipped to demonstrate, sell, and service them. Occasionally there may be two or more appliances which are entrusted one to each distributor.

Exclusive agencies are freely given by those manufacturers whose capital is so limited that they are unable adequately to finance an advertising campaign or other sales promotion. They

may have enough money to buy necessary materials and meet pay rolls to start operations, but cannot make an investment to establish a market. If the product is one of real merit, which can be appreciated without expensive educational work, sometimes a large department store, chain store, or wholesaler may take it on. In such a case the distributor naturally wants to be assured that after he has created a market it will not be taken away from him. He will ask for a long-term contract, in which the decision to renew will rest with him. He may want to sell under his label rather than the maker's trade-mark. In his extremity, the manufacturer may find it to his advantage to accept such an exacting contract, but if he does so, he should see to it that the territory is definitely limited. If he is dealing with a chain which covers much territory, he should insist on a shorter term of contract, or the inclusion of such a clause as "after two years, either party may terminate this contract by giving sixty days' notice." The idea is that he should not be so bound that he would be incapable of extending his market to keep up with his production capacity. In one such contract there was a provision which permitted the manufacturer to establish new outlets if the distributor was not able to sell the whole output, but in all events he was to be given the refusal of the goods produced before they were offered to someone else.

At one time, Holeproof Hosiery granted exclusive agencies even in the largest cities, but, as the business grew and the advertising was extended, the exclusive contracts were not renewed. A local chain of stores in New York which had the franchise refused to handle the Holeproof line after it was opened to the market. Other sources of supply proved inadequate and unsatisfactory and so many customers refused to buy substitutes that the stores were glad to restock the Holeproof line. That is about what is to be expected if the manufacturer becomes an extensive national advertiser.

General Exclusive-agency Contracts.—If an exclusive agency is to be granted for a product, the manufacturer should be assured of some form of compensation for giving his distributor the exclusive sale. Sometimes the contracts making such provisions are loose and verbal, being merely an understanding that while sales are satisfactory no other store will be permitted to sell the product. The more careful manufacturers provide a

written contract. Sometimes these contracts are made out in great length and with meticulous detail. More will be said of this later.

It is good business for a manufacturer, when he extends an exclusive agency to a wholesaler or retailer, to have a very definite understanding as to just what he is to get for permitting a monopoly in the sale of his product. It is not enough merely to be assured that the firm will "push" his products. A minimum stock should be maintained and a limited volume of sales by the year or semiannually should be required. Some automobile companies make a monthly quota. Nash also required a minimum capital of $75,000. Sometimes the contract also provides for excluding competing brands; however, such contracts have been under the ban of the Federal Trade Commission. The terms of sale, including price, may also be mentioned, if the state or states in which the business is conducted have the so-called "fair-trade" laws. In other states contracting for a resale price is still illegal.

If the distributor is to be depended upon for a definite amount of advertising, this should be specified. Who is to write the copy? Or is the copy to be submitted to the manufacturer before being published? If the manufacturer and retailer share in the expense of the advertising, this should also be definitely arranged. If the manufacturer is going to supply catalogues or literature for the distributor to pass out, the quantity and frequency should be specified.

Some exclusive-agency contracts do not provide for a definite period of time. They are left with the understanding that either side may terminate the agreement by giving adequate notice. Where the distributor exerts considerable effort in building up business, he naturally wants the terms of contract to be as long as possible. If the manufacturer is contemplating aggressive advertising and looking forward to an extensive market, he will want to restrict the period for which exclusive rights are granted. If the distributor is the sole proprietor of a business, or if the organization is very small and one man is particularly well fitted to act as a representative, the contract should provide that in case of death or change in personnel the contract would be automatically canceled. This does not mean that the successor could not continue with the exclusive agency but that the

manufacturer would retain the privilege of deciding whether he wants to continue the arrangement. The manufacturer should avoid being placed in an unfortunate position which would require him to continue a relationship regardless of the management of the business.

Contracts Which Cover Details.—Probably the contracts under which automobiles are handled are the most exacting of any in the field of general merchandise. One of these contracts provides for the following:

1. The appointment is for a definite location and that location may not be changed without the consent of the manufacturer.
2. The manufacturer specifically reserves the right to appoint other agents in the same city. He reserves the right to sell to the municipality and all of its subdivisions, and the dealer is required to turn over to the manufacturer all inquiries he has for automotive equipment from the city or its subdivisions.
3. The dealer agrees to keep on hand a specified number of cars and trucks for display. This, of course, varies with the size of the city. The display room and its equipment and the way it is maintained must be satisfactory to the manufacturer.
4. The distributor agrees to return all advertising signs, including the agency sign, immediately upon the cancellation of the contract. All other advertising matter is included.
5. He will make a careful survey of prospects and report the probable sale of cars for a year in advance.
6. The manufacturer does not specifically state that he will agree to provide the full number of automobiles the distributor anticipates he will need. However, the dealer is given the privilege of reducing his estimates if circumstances make it desirable.
7. The manufacturer cannot be held in any way responsible for delay in shipment of automobiles.
8. The rate of discounts are fixed in this paragraph.
9. Methods of payment of inventories are given in detail. This is for parts. The cars are to be paid for on delivery.

In all, there are 25 provisions. One of these is that the contract may be canceled on 30 days' notice by either party. Another is that no opening may be allowed in the wall between the repair shop, or the room where parts are kept, and the display room; the psychology of this was that, if the prospective

buyer could see a number of cars in for repairs or reconditioning he would be dissuaded from buying. Other provisions covered the use of the manufacturer's name in advertising, what constitutes a stock of replacement parts, allowances permissible—or recommended—for cars traded in, etc. These provisions are reviewed as suggestive for a contract covering a general exclusive agency.

Advantages and Disadvantages of Exclusive Agencies.—There are obvious advantages to this kind of exclusive arrangement on both sides, but it often happens that what is considered an advantage at one time may be a disadvantage later on. When a manufacturer brings out a new product, no matter how deserving it may be, the effort in introducing it to the public is expected to be considerable. If this producer is not well financed, it may be essential that he make sacrifices to his distributors to ensure the utmost cooperation. As the business grows and the sales become more numerous, and as the financial position of the manufacturer improves, he may feel that, however diligent his distributors have been in promoting business, the restricted sale reacts to limit the number of customers he can muster. In that case, he will look to the gradual elimination of the exclusive arrangements.

The distributor may be equally pleased at the opportunity to get a new product or a new brand of merchandise which his customers will not be able to find elsewhere. This is expected to ensure permanency of patronage and provide opportunity for aggressive sales promotion. Further, the margin of profit on goods sold under such an arrangement will, of course, be satisfactory, or the distributor would not enter into the contract. As stated above, the sale to consumers is usually the combined effort of the manufacturer and the distributors, particularly the retailer. The closer that these two firms can work together, the surer will be the success of their sales efforts. The exclusive agency provides for making arrangements in which each party becomes intimately familiar with the problems and resources of the other. Credit relations are sure to be satisfactory, and selling is reduced to its simplest form for the manufacturer. Salesmen may be eliminated in many instances after the definite arrangement is made. In any case, the salesman will be sure of the business, and it is not a matter of meeting competition in

either price or service. Of course, the arrangement must be such that competing firms will not have an advantage. No products are sold wholly without competition. Cooperative sales promotion under exclusive-agency relations is discussed in another paragraph.

The above paragraph pictures the best side of the exclusive-agency arrangement. Sometimes a large store is willing to put in a minimum stock to secure the agency, expecting to let it lie but keeping it from going to competitors. Again, after an exclusive agency has been in effect for a long time, the distributor resents any effort of the manufacturer to permit others to handle the product in his territory. Not infrequently the one holding an exclusive agency has thrown the items out when compelled to share his shopping area with others.

One manufacturer of a popular sweater sold through exclusive agencies. The second season, after the brand was established and proved popular, the manufacturer sent his salesmen to competitors of the established agencies and offered to let them stock the same sweaters, if they would remove the trade-mark before offering them for sale. But they were permitted to tell customers of the origin of the sweaters and to represent them to be the same except for the brand. It is a satisfaction to report that that manufacturer became involved in so much litigation that he was forced into bankruptcy.

In contrast with this was the contract for the exclusive sale of Mallory hats by Saks 34th Street store in New York City. After the manufacturer started national advertising, he gave notice that in future Mallory hats would be sold in the open market. The store executives naturally were not pleased with the new arrangement but made the best of it. They requested that they be notified in advance of the exact date when new spring and fall styles would first be announced, then liberal newspaper space, on the same day, announced that a full assortment of Mallory hats was on exhibition at Saks. The result was that the store continued to sell as many as in previous years, and new dealers also turned in generous orders.

Types of Merchandise Sold by Exclusive Agencies.—There are some types of merchandise, like pianos, automobiles, and home refrigerators, that are so definitely of a type to be sold by exclusive agencies that there is no question about them. Other

items, like cigarettes (except a few imported), chewing gum, candy mints, laundry soap, and a host of other staples are so definitely of a popular nature that any attempt to establish exclusive agencies would not be considered.

To continue the list of merchandise for which exclusive agencies are preferred, the following may be mentioned as types which are almost universally so distributed:

1. Products of large unit value.
2. Products requiring specially trained men for selling. Particularly is this true with goods like vacuum cleaners, which must be demonstrated in order to sell.
3. Manufacturers' lines which are complete in themselves, such as paints and varnishes.
4. Style and other goods sold through exclusive shops.
5. Products that require installation and a stock of replacement parts.

Specifically, the following are usually sold by exclusive contract:

Oil burners.
Farm machinery.
Furniture
Men's clothing.
Women's clothing.
Shoes.
Pianos.
Sporting goods.
Automobiles, accessories, and supplies.

The policy for radios has varied from time to time. At this writing, it is quite the common practice for a dealer to handle many different makes. With the following products, the tendency is to exclusive agencies, although there are many exceptions, such as paints and varnishes. Established lines are usually in this class, but the specialties are more often sold in the open market.

Heating stoves and ranges.
Household appliances.
Electrical supplies.
Higher-priced watches.

With the following goods, the exclusive agency is the exception:

Building materials, except articles that are sold under a patent, such as Beaverboard.
Grocery specialties.
Drug sundries.
Toilet preparations.
Hosiery.
Jewelry, including clocks and low-priced watches

Office supplies.
Stationery, books.

Open markets are usual for notions and novelties distributed through the limited-price variety stores, food, drug and hardware staples, and all bulk and unbranded merchandise. However, there are so many exceptions that it is very difficult to give a classification and this one is offered rather as being of suggestive value than to make an absolute listing. Occasionally, a manufacturer will sell in the open market where he has the best distribution, and in the distant territories, where his salesmen do not call frequently, he will grant exclusive agencies; this will mean less frequent visits by salesmen and more orders sent in through the mails.

Exclusive Agents as Chains.—At the time this is written, the state of Colorado is holding many exclusive agents within its jurisdiction to be chains. This particularly applies to the automobile business, but apparently may be extended to any store which bears the name, in whole or in part, of the manufacturer; for example, the "Gamble Store Agency" was held to be a part of the Gamble-Skogmo chain, even though the contract specifically provided that

> the retailer is an independent merchant who does and shall during the entire term of this contract, solely own, control and manage and supervise his own store.

Following this, in conclusion, is this paragraph:

> (*f*) In consideration of the agreement herein contained, the retailer gives to the wholesaler upon the termination of this agreement by cancellation, by either party, or otherwise, an option to buy from the retailer within thirty days after such termination of the contract, all salable merchandise purchased from the wholesaler at the wholesaler's current wholesale selling prices of such products and also an option to purchase any or all of the fixtures in the retailer's store at the current replacement cost thereof, less reasonable depreciation; and an option to take over the unexpired term of any existing leases covering the store building in which the retailer does business at the time of such termination. In case of exercising such last option, the retailer agrees to sign over to the wholesaler or to whomsoever he directs, any such lease or leases.

This law has been upheld by the Supreme Court of Colorado and, acting under this decision, the state is attempting to collect

taxes from the automobile manufacturers whose contracts with their agents are extremely like that of the Gamble-Skogmo stores just mentioned. Indeed, a rough comparison would make it seem that the Gamble-Skogmo store contracts are patterned after some of the automobile sales contracts.

In attempting to tax chains, this state, and perhaps others, seems to have overreached its aim, for if all the automobile agencies are to be taxed and then other stores which also act as exclusive agencies are to be involved, the chain-store-tax law will become oppressive, perhaps to the point where it will drive many firms out of the state.

Whether voluntary chains, particularly those of the Independent Grocers' Alliance, may also be held to be chains and so subject to the tax remains to be seen. The particular clause in the enactment under which action is brought reads in part as follows:

> . . . to apply to every person, firm, incorporation, or copartnership domestic or foreign, which is controlled or held with others by majority of stock ownership or *ultimately controlled* or *directed* by one management or association of ultimate management.

Evidently the cases will turn on the question of what is ultimate control or direction. Some of the voluntary chains, particularly the one named, do exercise a considerable amount of direction and control. It will be noted that "associations" are included as well as incorporations

The rates of tax in Colorado are

1 store	$2 a year
2 4 stores	10 a year for each additional store
4–8 stores	50 a year for each additional store
8–15 stores	150 a year for each additional store
15 24 stores	200 a year for each additional store
24 and more stores	300 a year for each additional store

According to the Louisiana law the tax is levied upon the total number of stores in the chain wherever located; that is, if there are 1,500 stores included in the chain, and only 5 of them are in Louisiana, the rate for each will be the same as if the whole number were in that state.

There are said to be 19 states which have laws so similar to that of Colorado that if this state is successful in collecting the taxes, the others will probably proceed to make collections.

Selling on Contract to Dealers.—Reference was made above to the method which is employed in selling men's suits to retailers, that is, the contract system. This is a great advantage to the manufacturer and also provides an economy to the public. It is apparent that, when a manufacturer secures definite orders before he starts making up the finished goods, he will shift most of the responsibility of making the right selections to the distributors. If a clothier does not order different sizes in the quantities that will sell, if his choice of colors is not good, he will pay for his lack of judgment in the number of leftovers for which he will have to take a markdown. As he is so much closer to his customers than the manufacturer, he is in a better position to assume such risks. The economic effect in the aggregate is good. If the manufacturer had to stand the loss on unwanted garments, his operating costs would of necessity increase, and all would pay more for their clothes. While the retailer also must protect himself against losses from leftovers, he knows his trade so well that the aggregate loss will be less to the retailers than if manufacturers, less advantageously situated for determining the extent of the consumer market, had to assume it all. Further, the retailer can dispose of unpopular merchandise, one item at a time, with less sacrifice than the manufacturer would have to make when selling in quantities.

The great canners offer inducements to get retailers to place their orders well ahead of the season. This is the surest way to get accurate information about the carry-over and the probable demand. But, inasmuch as the canners sell direct to retailers only in a limited way, the number of advance orders is limited. Moreover, grocers feel that canned goods are staples and that the wholesalers and canners are in a better position to know what the supply is going to be than they, since their vision is limited to local conditions. There is a wide difference between the position of the clothier and the grocer in placing future orders. The clothier can indicate sizes, colors, and styles to please his customers easier than the distant manufacturer, but the grocer's acquaintance with those who come to his store does not equip him to forecast the sale of canned corn, tomatoes, or peas as well as the canner should forecast them.

In the chapter on Industrial Marketing, the subject of selling on contract is discussed more fully, but only as it applies to

industrial goods. Under semiconsignment selling the topic is also presented, but that is of a different nature.

Selling under contract strictly means providing future deliveries for specified products at stated prices. The exclusive-agency contract may stipulate a minimum amount to be sold in a specified period of time, but, if that amount is not reached, the only penalty is the cancellation of the contract or agreement. If one is selling on contract, and the buyer does not see fit to accept as much as the contract calls for, a damage suit may follow with an assurance of collecting damages. Fixing a quota is not the same thing. That is more in the nature of a forecast by which to judge the dealer. If he equals or exceeds his quota, he is a satisfactory distributor. If he fails to reach the quota, the only penalty is the discontinuance of the agency arrangement.

Leasing.— In the case of machines, especially those machines which are covered by patents and have no near competition, it is a popular idea to lease instead of selling them. The United Shoe Machinery Company is said to own the machines which make some 75 per cent of the shoes worn in the United States. The International Business Machines, Inc., may lease an even larger part of some of the more complicated office machines.

There are numerous advantages in leasing as compared to selling. It is possible, for one thing, to get a larger profit on the investment. The lease may be on any one of several terms. On inexpensive machines the United Shoe Machinery Company exacted a rental in advance which would have been a fair price if the sale were made outright. The term of this lease was 5 years, which was supposed to be the life of the machine. If any part broke, the lessee was required to replace it unless it could be shown that the part was defective. If by very careful use the machine lasted more than the original term of the lease, it was extended at a reduced rate.

Other advantages to the lessor were that all material used with the machine must be bought from the owner. Failure to live up to this part of the contract automatically canceled the lease and the owner kept whatever payment had been made as damages. This relieved the owner of the necessity of meeting competition on the supplies. Some of the oil companies have leased pumps to the owners of filling stations with a stipulation that only gasoline bought from the lessor might be sold through

the pump. In this case the owner had a further protection. A sign on the pump labeled it as a special brand of gasoline, and to use it to pump any other kind made the operator guilty of false advertising.

Public utilities sometimes lease a meter, then charge a fee for installation. They have been accused of charging the full value of the meter plus the cost of installing it in this fee. Then they continue to collect a monthly rental. The telephone company owns the telephones. Instead of a monthly or yearly rental they exact a minimum charge by the month or year. That is supposed to be in lieu of a rental.

Computations of the census reports will be made on machines leased to the government by the International Business Machines, Inc. Some of these are let on an operating basis, so much for a designated amount of work. Others are leased on a straight time rental. The United Shoe Machinery Company receives a royalty of a stated sum for each pair of shoes made on some of its machines.

Vending machines are usually placed on a partnership basis. The owner takes part and the one who provides the location a smaller part, which is in the same category as leasing. This is also true of telephone booths placed on private property. The owner of the location shares in the receipts.

A large amount of the entertainment features of the smaller newspapers, including short stories, serials, cartoons, and pictures, is supplied by the plate houses on a rental basis. The publisher is charged so much for the use of the plates, which must be returned to the plate house.

Professor H. R. Tosdal gives an account of a manufacturer of cooking gas, who was involved in an extensive lease of materials.[1] The gas was supplied for cookstoves to people who could not get connections with the gas mains. It was condensed under heavy pressure into steel tanks like those which supply carbonated gas to soda fountains, only much larger. An apparatus was necessary to regulate the pressure so that it would not vary, as that in the tank did. This machine was comparatively simple and was sold outright to the distributors and by them to the householder. The cylinders were owned by the company and the

[1] "Problems in Sales Management," p. 365, McGraw-Hill Book Company, Inc.

rental for their use was charged in with the price of the gas. As there was danger of competition from the great oil companies, a leasing system was worked out in connection with a gas range. The latter was of high quality and gave maximum results with the gas. Many cheap stoves had been sold by dealers which gave poor performance and were expensive to operate and the gas was commonly held responsible for this. The new ranges were sold without profit to the dealers, who in turn sold them in connection with a lease for the apparatus which was necessary to regulate the gas flow. The installation of the stove and machine cost about $30. So the company was reimbursed for the stove and secured a sufficient rental within 9 months to pay for the other apparatus, which it still owned. This assured a continued use of its gas, for the consumer would scarcely surrender an outfit in which he had an investment and which he could continue to use without further costs.

In so far as the extent of business is concerned, the films rented to moving-picture houses surpass all other forms of leasing. This arrangement is very simple, as the films are sent for a definite period and are to be exhibited on specified dates. As the films get old, and pass from first-class to second-class and ultimately to third-class houses, the price is reduced.

The above by no means cover all the types of leasing commonly used by machine manufacturers, but they represent a sufficient variety to be illustrative of most forms of contracts.

It is not supposed that a leased machine will be given the same care as one that is owned. Where the rental practically amounts to the full value the lessor has no worry about that, but it still behooves him to see that discarded apparatus is returned for repair or junking and so kept off the market.

Selling on Consignment.—Consignment is a very much discussed method of distribution. It is commonly called the weakest of all selling methods for a manufacturer. That, however, should be taken with liberal allowances. Both General Electric and Westinghouse sell electric lamps on a consignment basis. They find this practical and profitable, even with the base number of outlets and the immense amount of capital required to stock all these distributors.

One of the reasons for consignment selling has been that it gave the manufacturer absolute control over his retail prices.

Now that the so-called "fair-trade" laws are in such general effect, this is no longer regarded as the great advantage that it formerly was. However, it does avoid all litigation, complaints from dealers, and the other difficult problems that arise over enforcing a resale price. This kind of consignment contract is called an "agency consignment" contract.

Consignment under such an agreement should not be confused in any way with selling through commission houses. When goods are sent to a commission merchant on consignment, he takes them over to sell under such conditions as he finds convenient to himself. The consignor has very little control after his goods have gone into the hands of the commission house, and whatever control there may be is because of contracts made to cover subsequent transactions. Once a shipment of goods is in the hands of the consignor, he disposes of them in any way which to him seems best This is the straight consignment. In rare cases, the price received for the goods may not equal the handling charges, and then the commission house bills the shipper for the difference. In that case, the consignor not only loses the goods, but in addition may have to pay for having them disposed of. This, of course, can happen only with perishable goods. Fruits, vegetables, and eggs from farms or other country shippers are about the only ones that ever run into these misfortunes.

In contrast to this, when a manufacturer places goods on consignment under the agency-consignment contract, he retains title to them until sold. He can dictate price and other conditions of sale. If any goods are not sold, he is expected to take them off the distributor's hands without cost to the distributor. The advantages that are gained from this method of distribution are set forth in the following report from an automotive-accessory company.

Advantages and Disadvantages of Consigning.—Consignment selling tends to increase when business is dull and sales are hard to make. Usually at such times dealers are not prepared financially to increase stocks. The tendency is to cut prices, to make unwarranted allowance for trade-ins, and otherwise to demoralize the market. In 1932 Ernst & Ernst[1] found agricultural implements, textiles, chemical, electrical equipment,

[1] *The Bulletin*, published by Ernst & Ernst, Nov. 15, 1932.

electric-light bulbs, radio tubes, seeds, drugs, cosmetics, perfumes, and tobacco all sold on consignment, at least to some extent. Seed houses have long followed the practice of selling seeds on consignment. At the end of the season all unsold seeds are returned to the grower; this prevents old and dead seed from getting into the hands of customers. In the electrical field for years it has been the practice that motors are consigned to dealers. Piano and furniture manufacturers at one time widely practiced consignment selling but have discontinued the practice. Ready-to-wear clothing manufacturers often use consignment selling to introduce a new model or design.

In addition to controlling the price, where the distributor is an agent the manufacturer may require him to handle the consigned article exclusively, which may not be possible if goods are sold outright. The manufacturer who maintains adequate records has a complete knowledge of the stock on hand—both those in his own warehouses and those in the hands of the consignees. Such stock can be quickly shifted from dull to active markets. When new models are introduced, they can be timed perfectly with a campaign to clean out obsolescent stock.

There are advantages in consignment selling for the distributor as well as for the manufacturer. The distributor is protected against price-cutting competitors and thereby is assured a fair profit. He can carry larger assortments and larger stocks because he is relieved of the burden of inventory investment. Frequently he is allowed exclusive selling rights in a given territory. He does not have to assume losses due to obsolete stocks. If goods are not sold, they must be returned. There are other advantages to the retailer, but these are outstanding. Producers and distributors alike are realizing that controlled merchandise and fair profits are preferable to unlimited, cutthroat competition, under which no one realizes a legitimate compensation for his efforts

It should not be assumed that consignment selling represents a perfect method of distribution. It does not. It is limited in the scope of businesses wherein it has proved to be practical. There are many limiting complications in the practice. There is the possibility that distributors will take unfair advantages of manufacturers. There are intricate legal questions involved in contracts. Without proper safeguards it is entirely within the

realm of possibility for consignment selling to prove a boomerang rather than a blessing.

Experience has shown that it is fairly easy for unscrupulous distributors to manipulate consignment stocks to their own advantage in the event of market price changes. A rise in price has produced many predated sales reports. Downward movements of prices have revealed unusually large stocks. Jobbers' consigned stocks represent inventory of manufacturers; thus, manufacturers are burdened with correspondingly heavy carrying costs, necessitating the maintenance of a strong bank account at all times. Manufacturers must assume the risk of excessive stocks of obsolete merchandise in the event of style changes. Manufacturers must conduct independent, careful checks of inventories of stocks in distributors' hands to assure accuracy of inventory records.

On the side of distributors there are also certain disadvantages in consignment selling. Upon distributors falls the rather intricate and cumbersome task of preparing monthly reports to the manufacturer showing sales, stocks on hand, and other pertinent data. At no time does the distributor hold title to goods sold on consignment. He must bear the loss of damaged or misplaced stock, in accordance with the terms of his individual contract. Contracts vary widely in this respect. There are other disadvantages for the distributor, but these serve as examples.

Semiconsignment Selling.—The courts have generally held that when a sale is made and the item of exchange is free from obligations, the purchaser may do with his property as he sees fit. Under the various court rulings, before the passage of the so-called "fair-trade" laws, it was illegal for a buyer and seller to contract for a resale price. It amounted to a conspiracy to control price. An exception was a large manufacturer of cash registers who was restricted in the use of a product he had bought. He made a practice of buying machines made by a competitor and placing them in his show window with such a sign as, "This piece of junk for $5," when the recognized value was $100 or more. That was banned by the FTC as an unfair trade practice, not, however, as an infringement of any laws of sale.

Regardless of court rulings, there has been and still is a tendency to exercise a degree of control over some branded merchan-

dise after it has been sold and paid for. At the present time, the FTC is giving attention to automobile-agency contracts which extend a degree of control or direction over the merchandise that has been bought and paid for by the agents. This is particularly true of parts for cars. The Commission complains:

> The practice has grown up for manufacturers to insist that their dealers shall not handle competing automobiles, accessories, or repair parts made by other manufacturers; in other words, that the dealer shall give exclusive representation to one manufacturer's line.[1]
>
> This agreement, is, in effect, nothing more than an agreement on the part of the manufacturer to permit the dealer to purchase for cash and to resell for cash or whatever equivalent the dealer may choose to accept, automobiles made by the particular manufacturer during such period and under such conditions as are outlined in the agreement. In other words, the manufacturer-dealer agreement, commonly spoken of in the trade as a "franchise," merely sets out the conditions under which the dealer may buy and sell motor vehicles made by the manufacturer generally with the understanding, expressed or implied, that the dealer will handle exclusively the products of one manufacturer.[2]

It is common practice to insert a clause in the sales contract that, in case the exclusive-agency relations are discontinued, the dealer will return the merchandise on hand to the manufacturer, at prices duly arranged. This is very similar to selling on consignment so far as the manufacturer is concerned. But the advantages of a consignment arrangement to a dealer do not exist. This is true when he pays for the merchandise; if it does not sell, he is the loser. But if a dealer has worked up a demand for a product sold on consignment, he has the privilege of buying at least all there is on hand. The right for a manufacturer to dictate how the merchandise is to be sold and, if to his advantage, to demand that it be returned to him, limits the distributor unfairly. It should be pointed out, however, that the manufacturer makes such regulations and limitations because he believes them to be helpful in selling more goods. Usually the more a distributor sells, the more he prospers. If, and when, the distributor is restricted to one manufacturer's products, at a loss of profit, the restriction becomes unfair.

[1] House Document, No. 468, p. 110.

[2] *Ibid.*, p. 114.

Installment Selling.—Installment selling, as contrasted with running an account at a store, is credited to Isaac Singer along with the trade-in and numerous other merchandising ideas. It is evident that when a new product came out, such as the sewing machine, which was expensive, if payment could be distributed over a considerable period of time in small installments, both selling and paying for it would be made easier. The idea spread to other machine manufacturers, and for many years heavy machinery has been paid for on the installment plan. The usual process was for the seller to retain legal ownership of the article, which was turned over for use to the buyer. Then, when the last payment was made, a bill of sale was given. The argument was that it could help pay for itself. Printing machinery, the larger items of agricultural implements, some of the new and more expensive store fixtures, and many other items of considerable expense were sold on this basis.

With the coming of the chain stores, which required cash payment for goods, there was a gradual discontinuance of the long-time store account. Previously, retail stores had carried accounts, sometimes running as long as six months before any payment was made, and final settlement might be almost indefinitely postponed, with the buyer merely making payments on account from time to time. When the store patrons had some heavy expenses, it meant that the store where they were accustomed to trade would have the financing risk; that is, a customer would pay nothing on account while saving money for a major purchase, but would continue to buy supplies on credit. This was one of the great influences that started installment selling. Another influence and perhaps the paramount one was the coming of the automobile. If cash had been required of every buyer of automobiles, the progress would have been slow indeed. Almost from the first it was arranged to sell automobiles on an installment plan of payment, and this in spite of the fact that the manufacturer required cash on delivery when the car was turned over to the dealer. For a time the banks attempted to relieve the dealers from this financing by taking over the dealer's "paper," but the amount soon became so large that the banks were unable to finance these long-term loans, many of which involved more risk than was considered good banking procedure. With this

came the financing companies which have operated so extensively in the automobile industry. Financing companies have also become prevalent in many other fields.

The general principle of selling on installment is to require a down payment and periodic payments at definite intervals. The payments are so arranged that at no time will the deterioration and obsolescence be greater than the amount already paid. That has sometimes been difficult to follow, especially if the price of an automobile is reduced by a manufacturer after it has been sold to a consumer. The installment selling plan made buying easy and attractive. In order to compete more successfully with those providing deferred payments, the furniture men, clothiers, and even building-materials and paint houses, inaugurated the deferred-payment contracts. It is evident that with building materials and paint there is no chance for repossession, but, as most states have laws providing for mechanics' liens which also include materials supplied for a building, a claim against the property incident to building materials and paint became a preferred claim. Hence the security was regarded as good even where repossession of definite articles was impossible.

Books, magazines, musical instruments, and even excursion trips were subsequently sold on the deferred-payment plan. That this plan of selling is not without merit is shown by the fact that, during all the depression years, the failure of a financing company was infrequent. Indeed their record during the depression was rather better than that of most other kinds of business. While there has been a considerable recession in the volume of sales on the partial-payment plan, the custom is still prevalent and of wide application.

Retailing through Purchasing Agents.—An extensive practice has grown up through the years of quoting prices to institutions and other large consumers at considerable reductions from retail prices. For example, a large university in the course of a year buys a vast number of items; some, like electric lamps, in immense numbers; others, like electric refrigerators, only on occasion. Yet the difference in price between what the institution pays and what an individual buying at a regular retail store pays is considerable. Perhaps that reduction is justified when the article is strictly for use by the university. There is a difference of

opinion as to its desirability. But when the institution, through its purchasing department, permits its employees to buy whatever they can save money on, the economic value of the custom is subject to grave doubts, as the retailers see it.

It is not only schools and colleges which offer such assistance to employees, but many manufacturers and transportation companies, public utilities, and even wholesalers and retailers.

Arrangements whereby employees of industrial and commercial firms make use of the purchasing facilities of their employing firms are of several kinds:[1] (*a*) An employee may place an order for the desired merchandise through the purchasing department of the firm; (*b*) the purchasing agent may supply an employee with a letter of introduction to a manufacturer or wholesaler, requesting that the employee be permitted to purchase whatever he chooses; (*c*) wholesalers and manufacturers, and firms which cater especially to this kind of trade, may issue "courtesy cards" enabling the employee to make purchases at any time, such cards being distributed by personnel or purchasing departments of the employing firm.

Other purchases by employees are made from companies which issue catalogues featuring nationally advertised products and other merchandise at prices below usual retail prices and which actively seek business with employees of industrial and commercial firms. Such companies do not ordinarily carry complete stocks of the merchandise offered for sale. Other purchases are made through companies which purport to be manufacturers, jobbers, agents, or wholesalers, but which are in reality retail outlets dealing directly with consumers and do not perform the functions which their descriptive titles imply.

Aside from the diversion of trade from established retail channels which results from employee buying through the means mentioned, further diversion occurs through sales to consumers generally by the so-called "catalogue houses" and "discount houses" mentioned in the preceding paragraph.

Through a recent survey the National Retail Furniture Association has ascertained that firms which permit their employees to use company purchasing facilities number at least 1,800 in New York City, 1,100 in Chicago, and 600 in Detroit. The

[1] From a pamphlet, "Diversion of Trade from Retail Channels," issued by the Chamber of Commerce of the United States, January, 1939

exact extent of similar arrangements in other cities has not yet been determined, but it is known that the practice is general over the country.

In the development of the kind of business referred to, a great many varieties of goods are being made available. The preponderance of this trade is in electrical appliances, sporting goods, petroleum products, furs, luggage, jewelry, automobile supplies, furniture, and clothing.

Employees do not always save on purchases made through non-retailing channels. Savings apparently resulting from the ability to buy goods at less than usual retail prices are often offset because the employee must pay additional costs for delivery, installation, and maintenance, which would ordinarily be included in the full retail price of the article if bought from a retailer. Apparent savings are thus not real savings; and, in addition, the employee loses the benefit of the advice and experience which retailers have and which they gladly make available to consumers who desire guidance in their purchasing.

Evidence is available that the prices of much of the merchandise offered for sale at "wholesale" are in reality equal to or greater than retail prices. Tests made in New York City revealed that in 98 out of 100 purchases of soft goods, including clothing, made through use of employee discount cards, prices paid were equal to or greater than prices prevailing in established retail stores. A similar test covering purchases of home furnishings showed that a majority of purchases were made at prices from 10 per cent to 30 per cent higher than prevailing retail prices and that practically no purchases were made below regular retail prices. Such evidence demonstrates that misrepresentation characterizes certain types of selling to employees.

It was revealed that an officer of one company had purchased nearly $2,000 worth of furniture for his own use in a single year. Other large diversions have been found, which indicates that employees are not the only ones involved. Probably the economic effect of all this courtesy buying and selling is overestimated. On specific items there may be a saving. But it is possible that, on the other lines of goods, prices are enough higher to offset whatever savings there may have been. For example, there may be a saving when a new bicycle is purchased on a courtesy account. But when, and if, other articles are

bought from the same source, prices may necessarily be higher than would be required if all purchases were regularly made at the logical source.[1]

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[1] Condensed from a statement by the secretary of the New York Council of Retail Trade Diversion.

CHAPTER VI

Evaluation of Distributors' Methods

Selling Direct to Consumers.—With the early success of the mail-order houses, there was a wave of advertising that spread over the country to sell direct from manufacturer to consumer. This was greatly stimulated later by the passage of the parcel post law of 1913, which reduced the carrying charges below the postage and express rates that had prevailed for years. Typical of this selling was the Kalamazoo stoves, which were advertised with the slogan, "A Kalamazoo direct to you." Watches, clothing, house furnishings, bicycles, and even the early automobiles were advertised to consumers with great stress laid on the fact that the middlemen's profits were being saved to the buyer.

Of course, the mail-order houses were primarily retail merchants who sold largely by mail. Although the leaders have established extensive chains, they still do a considerable amount of their business through catalogue sales. Also, most of our leading stores have mail-order departments, in which they sell a very considerable amount of merchandise. But mail-order selling is not necessarily the same thing as selling from manufacturer to consumer. A sale direct to a consumer means that the producer has his own product, or, in rare instances, a line of products, which he supplies to consumers direct from the point of origin.

In the beginning, this kind of selling required a much greater faith in the buyer's honesty and a more liberal interpretation of the guaranty than was prevalent in retail selling. The John Wanamaker store in Philadelphia, which was opened in 1876, established the policies of marking goods in plain figures, having

one price to all, and of accepting returned goods for credit. These were innovations, and the historians of the Wanamaker store claim that they originated with the founder of that institution. When it came to selling merchandise "sight unseen" with the money sent long before the goods were shipped, an absolute guaranty of satisfaction was established and generally lived up to. Otherwise there could have been no success in the field.

The saving to the consumer by buying direct from the manufacturer was largely a myth. It was discovered that most of the functions of wholesaler and retailer had to be performed by someone in the transference of goods. The small amount of profit that these two middlemen took for themselves was usually not sufficient to balance the more expensive way of selling. In other words, the difference in the economy of wholesaling and retailing channels, compared with single shipments to individuals, left a margin in favor of the middlemen. Practically all the old firms, which made an initial success by selling to consumers direct from the factories, have closed up or adopted other methods. Some have modified the system by employing house-to-house canvassers. Some have employed distributing agents, which virtually have a traveling store with a very limited stock. As one looks over the mail-order publications of the present time, one is struck by the fact that the most of the advertising does not represent goods but some sort of service. This includes instruction in various subjects; preparing students for civil-service examinations; teaching the technique of various musical instruments; or even giving instruction in the trades. Beauty treatments and remedies for facial blemishes are common. The widespread ownership of automobiles and the extension of good roads has made it possible for practically every family to visit a store where the selection can be made from seeing the actual goods rather than from pictures and descriptions. Furthermore, there is not the prolonged wait between the time the order is sent in and the date the goods are received, which the mail-order business cannot avoid.

Features of Goods Which Aid Direct Selling.—Articles up to $1, and on occasions $2, can be sold, if advertised skillfully, without the added aid of correspondence, circulars, or catalogues. If a personal letter has to be written with each $1 sale, it will probably reduce the profit to such a small amount that the

transaction would not be desirable. In selecting something to sell direct by mail, the following list of qualifications should be observed:

1. The article should not be available from the retail stores or other more convenient sources.

2. It should be protected by patent, so that once a trade is established, a larger concern cannot bring out a similar or substitute product for less money and so provide impossible competition.

3. The article should be inexpensive to ship and be of a nature that would not be easily injured in shipping or handling. This means that returned goods can be sold to another customer without loss.

4. An item that tends to advertise itself like a cigarette lighter will help to build up business more rapidly than an article that is used, for example, in the kitchen, like an egg beater, and would seldom be seen by others than the owner.

5. It should be so simple that there would be no doubt as to the ability of anyone to use it successfully. If long descriptions about assembling or minute directions for operation are necessary, the chances are that the article will not sell. This has been found true also of window-display material which was sold direct to retailers, but never displayed.

6. If the article is one that will need to be replaced occasionally and thus provide possibilities for establishing regular sales, the chances of success are much greater.

7. If the article is one of a family which are related and where the others could also be sold by mail, there is a better possibility of expanding a business. It costs more to get the first order from a customer than for subsequent orders, either for replacement or for articles in the same family. After inducing a woman to send an order for a new type of nail file which is sold direct, by package inclosures or other such material, she might be induced at small expense to try a nail polish put out by the same firm. The best known article, of course, should be the one through which the introductory sale is made.

Although there are a considerable number of firms that are still doing business in this way, the number of these firms and the amount of their direct sales is not growing. Statistics are incomplete, but it would appear that the volume does not

keep pace with the growth of the population. Of course, there are many exceptions, like the rug salesman who began with a list of customers he had served in a large store, and used that list as a basis for establishing a mail-order business in imported rugs. He was an extremely good judge of rugs and had exquisite taste in room furnishing. With this equipment, he was able to build a profitable business in carpets and rugs, but upon his death the business dwindled and was soon discontinued. Many other like experiences could be cited. Mail-order selling is not a growing field, and there seems little that can be done to rejuvenate it.

Sales through Catalogues.—Reference has already been made to this type of selling. It is adapted to many kinds of merchandise, and a surprisingly large number of stores keep separate departments to handle goods sold by catalogue. These stores do not seem to be seriously handicapped by the competition that good roads and automobiles have provided, but style goods are practically out. There was a time when the National Cloak and Suit Company had a very extensive business in women's clothing. That type of merchandise is no longer extensively sold by mail-order methods. Primarily staple goods, especially in grocery items, constitute most of the offerings in consumer catalogues. It is commonly said that little or no money can be made selling by mail until a concern has reached a magnitude of distributing 100,000 catalogues. After that, profits seem to be assured and the business stabilized.

With a product like flower and vegetable seeds, a catalogue is essential. The seeds of themselves have no attraction. The most accurate and alluring sales talk by a clerk is ineffective compared to an illustration in color of the bloom which will eventuate from the wrinkled and unattractive seed. The presentation of radishes, tomatoes, cucumbers, and celery in their natural colors and ready for the table, all of which is possible in even a modest seed catalogue, is more appealing than any sales talk. Publishers also find it profitable to prepare an annual catalogue showing new books. These are sent to the best reader customers, in addition to bookstores and libraries. The publisher's description of a book far surpasses the sales talk of practically every bookstore clerk in the country. Style books, which

are catalogues in a sense and which have already been mentioned, continue popular. Stores like Wanamaker's also issue spring and fall catalogues of popular merchandise, much of which may be ordered by mail, which is not the case with style books already discussed.

The greatest number of catalogues, however, is in the industrial field. The wholesale hardware catalogue is monumental in size. Paper manufacturers, especially those who specialize in writing papers and cover stocks, have extensive catalogues and books of samples. Chemical and drug houses, machinery manufacturers, type founders, suppliers of fire departments, and many others bring out extensive catalogues at intervals. With many of these, like hardware, type, drugs, etc., the salesman does not carry samples but sells from the catalogue. Yet even with these, the catalogues bring in a large amount of business direct

Peddlers of Garden Truck.—The foregoing does not take into account the army of house-to-house salesmen for eggs, butter, cottage cheese, dressed chickens and ducks, and the peddlers who go about the streets with their rickety wagons and mellifluous voices announcing "onions, potatoes, turnips, and b'nanos." In Italian districts, garlic is sometimes added to the tuneful chant.

Police regulations deal generously with these itinerant green-grocers. If they are offering produce which they have grown, they can plead a constitutional right to sell it on the public streets. As long as they do not obstruct traffic, nor litter the streets, their "rights" seem well established. Besides, there is a real demand for such selling. Without taking the trouble to change their house dresses, women can go to the wagons and make their selections. At best, fresh vegetables and fruit are difficult to order satisfactorily by telephone; women like to look over what is offered before making a decision.

Even in the great cities this kind of selling will probably persist because no better way has been found. Its effect on the marketing of farm produce is negligible. Most of the vegetables sold by peddlers are grown in near-by truck gardens. Of course, that is not true of fruits, especially oranges and bananas, which are usually procured from wholesale fruit markets. Even in cities like Seattle, Albany, Savannah, and San Antonio, where there are

such excellent city markets, there is still some wagon peddling, because of its convenience for the housewife.

Fruit and vegetable stands along the roadsides are sometimes stocked and operated by the farmers who live near by. When fruits and produce are plentiful and help scarce, these stands are left without an attendant. A sign requests the buyer to help himself and "deposit the change in the slot." In imitating these farmer stands, many holiday and Sunday offerings are brought out from the city by vans and trucks and placed by the roadside to give them the appearance of being freshly gathered from the adjoining fields.[1]

Origin of Selling Direct.—In the early years of the country, peddlers roamed about buying rags, old rubber, discarded metal, sheep pelts, and other light products for which farmers had no further use. In exchange for these, they offered brushes, brooms, tinware, knives, and a variety of products which would now be stocked in the variety store. That was before the days of the five-and-dime store, and it was comparatively easy for a peddler to go into the city to stock up with notions that were not commonly found in country stores.

One of the first cooperative efforts in the country was said to have originated in Connecticut. It so happened that some silversmiths, who had emigrated from England, had established themselves in Torrington, Conn. They would make up a small number of articles and then go with them to the cities to sell them to the large stores. Someone suggested that instead of each man going to sell his own wares they combine their efforts and let one man do the selling for all. Presumably the man chosen was the poorest smith and the best salesman. An outgrowth of this was the stocking of a peddling wagon which went as far as Ohio, Indiana, and Michigan to dispose of silverware. As in the cases already cited, much of this silverware was bartered for such products as the farmer no longer had need for.

Other items distributed by peddlers were books, "bought on subscription," such as *Dr. Chase's Medical Recipes* and *The Life of Barnum*. Even *The Autobiography of U. S. Grant* was sold by

[1] Near cities, especially upon the main thoroughfares, roadside stands tend to increase in size and the variety of goods handled—household goods and antiques are common. It is to be noted that when traffic becomes congested, the possibility of sales decreases

solicitors. The system still prevails, primarily in selling encyclopedias and some other expensive series of books. For many years there was a custom of selling "patent rights" for limited territories. The inventor would send out solicitors assigned to limited territories to sell "rights." This conveyed the exclusive privilege to the use of the patent in one or more counties.

Nursery stock of fruit trees and shrubbery that the farmer needed was sold by solicitors and deliveries made subsequently. Magazines often maintain crews which solicit subscriptions from house to house, and many others gain a livelihood by peddling in times of unemployment. This kind of solicitation was greatly increased during the hard times of the thirties. A feeling of sympathy on the part of the woman of the household would induce her to make many purchases just to help out the peddler at the door. The merchandise offered was of surprisingly limited variety. Needles, thread, shoelaces, and pins were sometimes about the only things offered.

Solicitors Supported by Advertising.—Such items as refrigerators, oil burners, power washing machines, and other items of high unit value will probably always be sold by direct solicitation. This is quite a different thing from house-to-house selling of goods supported by national advertising, such as is done by the Fuller Brush Company and the Real Silk Hosiery Company. The first of these was the originator of the plan of selling a complete set of brushes for home use. In order to sell most efficiently, a demonstration was necessary. The nature of the products made it almost imperative to sell by solicitors who demonstrated. The big problem was to secure an entree to the home so that the salesman would have an opportunity to demonstrate his wares. National advertising was employed which emphasized the company name and soon made it familiar to everyone. Then a distinctive button was provided for each solicitor which identified him as a representative of the company. This identification, together with a statement from the representative went a long way to securing the desired entree. Brushes which had never had a place in the house before were bought by thousands of people. Further, it was recognized that the life of a brush is limited and repeat sales were probable. These could be secured with less selling effort than was necessary for the original sales, so solicitors were assigned definite territories with instructions to

cover the territory at stated intervals. This has built up a substantial business which seems to be permanent. The margin on the brushes is sufficiently wide to pay solicitors.

Making deliveries is one of the great drawbacks to house-to-house selling. The money will not be available, or the solicitor cannot make change, or the woman wishes to consult with her husband before paying—these and many other problems come up after the sale is made. Immediate delivery and collection for the goods are difficult. People are not at home or are unable to pay at the time of delivery. Other excuses make the delivery a burdensome and expensive proposition.

The Real Silk Hosiery Company tried selling through the regular channels but met with little success. Then, in 1919, they started house-to-house selling. This was by no means new for hosiery. Other firms had tried the same plan, but the Real Silk Hosiery Company advertised in national magazines, which immediately gave the products a standing and the solicitors an entree which smaller operators had never enjoyed. Inasmuch as silk hosiery was regarded as something of a luxury, the margin required in stores was large. Indeed, 50 per cent of the selling price was not uncommon. It was found that for less than this the hose could be sold by house-to-house solicitation. A new system of delivery and collection, which avoided most of the difficulties common to that kind of selling, was established. When the solicitor took the order, she (most of them were women) collected an advance payment. This was her commission on the sale. The goods were to be sent by parcel post, and the postman collected the balance upon delivery. Each solicitor at the end of the day had thus been paid for the work she had done that day. Without national advertising, which established the manufacturer as a responsible firm in the minds of the public, it would have been impossible to collect the advance payment.

As time went on, silk hosiery became a staple, worn by everyone. The margin asked by stores was gradually decreased until the advantage that the Real Silk Hosiery Company had enjoyed disappeared. By that time the company had built up good will and had so many good solicitors that it was able to continue the business by restricting its house-to-house sales to high-grade and high-price goods which needed demonstrating. A complete line of samples was always carried, including variety in colors. This

made home buying very attractive, and other garments were added, including lingerie.

Limitations of Selling by Canvassers.—With the large number of automobiles and the extensive good roads, selling by canvassers has been largely discontinued. One never sees a pack peddler any more. It is only exceptional goods that are offered by house-to-house solicitors. In addition to home refrigerators and other items which are in the durable class of goods, there is little or no opportunity for this type of selling. The Jewel Tea Company built up an immense business with house-to-house selling, and it led subsequently to the establishment of many of the Jewel Tea Stores. The R. L. Watkins Company made a business of outfitting solicitors with medicines, some staple groceries, like extracts, and a few of the standard drugs, which they sold from house to house. At one time, this company provided a wagon which was sold at cost to each solicitor. Then he was given a definite territory to be covered every few weeks or four to eight times a year. The company had thousands of solicitors at one time, but that business has also been greatly changed, and their itinerant merchants have disappeared along with the rest.

Probably with electrical appliances that need demonstrating and other similar equipment that must be seen in use to be understood, house-to-house canvassing and selling will always be continued. An example is a doorbell that rings with insertion of a coin, which the writer saw in Holland. The very purpose of the coin doorbell was to discourage peddlers, which it did effectively. The only way to ring the bell was to insert a coin. In the case of a friend or neighbor, the coin was returned. With peddlers and solicitors that courtesy was not observed. Although its chief purpose was to discourage house-to-house solicitation, it would seem to be a type of article best sold by that method; but even in this case demonstration in department stores and other large retail establishments can be so much more effective and so much less expensive that an adequate job of demonstrating can be done without going to the home.

It is interesting to see how one of the enterprising manufacturers of soup has changed to this method. At first, he fitted out a small demonstration kit with a Thermos bottle, paper napkins, cups, and spoons. The demonstrator would call at the house, and, if admitted, serve a small cup of one of the several soups she

carried. This came hot from the Thermos bottle and was very effective, especially as it gave her an opportunity for a good sales talk, but at best the solicitors could cover only 12 to 15 houses a day, which made the sampling and demonstrating very expensive. It was found that equally effective sampling could be done in stores and it was far more economical. Furthermore, the opportunity to make a sale and delivery at the time gave a great advantage to this method over house-to-house solicitation.

Vigilance-committee Plan to Check Canvassing.—The following has been reproduced exactly as sent out by E. H. Whitehead, manager of the Chamber of Commerce of Temple, Tex. It shows a common attitude of these organizations toward canvassers. The Temple plan is being widely copied.

The Vigilance Committee, operated jointly by the Temple Chamber of Commerce and Board of Development and the Temple Police Department, is proving a very effective method to curb the activities of solicitors of all kinds and to enable the public to distinguish between the racketeers and the honest person. All peddlers, magazine solicitors, transient insurance agents, advertising schemes, co-operative trade promotions, charity solicitors and beggars, and, in fact, every type of person who seeks to work from house to house or from store to store comes under the jurisdiction of this committee. Traveling salesmen for reputable houses are not molested.

The plan is simply that of identification. All solicitors are required to provide themselves with a Vigilance Committee identification card signed both by the committee secretary and the Police Department. The enforcement depends upon the authority which Texas laws grant to a Chief of Police to arrest suspicious characters and hold them in jail for 48 hours "for investigation." The Police view anyone as a suspicious character who attempts to solicit without a card and this forces the solicitors to come to the committee for cards. The CC-BD manager serves as secretary of the committee. Solicitors must file with the secretary their name, home address, address of their state manager and home address of their respective companies. The secretary then writes to their employer and requires a letter through the mails attesting that the applicant is an authorized agent and that the company will be responsible for their agents' actions and commitments. In the case of companies not generally known, the Better Business Bureau of their respective cities must report on the reliability of the company. The applicant may be required to pay for necessary postage. We usually send reply postage to the Better Business Bureaus or others to whom we write.

The solicitor then files his or her fingerprints with the Police Department. These fingerprints are sent to the FBI at Washington and Vigilance Cards are not issued until a report is received from Washington. This requires about ten days and we find that more than half of the applicants leave town rather than wait for this report. The Police report that nearly two-thirds of the FBI reports show that the applicants have criminal records, some of them of very serious nature and extending over a period of years.

We have some nice letters from well-known national companies endorsing this plan and stating that it actually helps honest solicitors for reputable companies. We, of course, have the usual card which our members post in their places of business stating that they will purchase no advertising nor make a donation or subscription for any purpose unless the applicant has a Vigilance Committee card. We have about fifty women located in every section of the city officially appointed by the mayor on the Vigilance Committee Auxiliary. Their duty is immediately to notify the Police when approached by any solicitor who does not present a card. We also have business men in every block down town who agree to do the same thing. This prevents any solicitor working here very long without being apprehended by the Police.

In practically every case where the solicitor files his credentials and fingerprints and favorable reports are received from their employers and from the Department of Justice, a card is issued to them which permits them to work. Since November 1st,[1] the number of solicitors here has been reduced by about 75 percent. Several escaped convicts and other criminals have been apprehended by the Police and the housewife has more time to listen to the bona fide solicitor. This plan is successfully applied to local and rural advertising schemes, subscription lists, etc., and a number of our members have reported that this committee has already saved them the cost of their annual membership in this organization.

Efficiency of Selling by Canvassers.—There have been at least two independent surveys made of the extent and trend of house-to-house selling. One of these was under the direction of Prof. Paul S. Keiser of Temple University, and the other of Prof. Louis Bader of New York University. The former covered a considerable residence district of Philadelphia and the suburbs. The one by Prof. Bader was restricted to three suburban districts of Greater New York, one in Westchester, one in Long Island, and one in New Jersey.

[1] That covered a period of about nine months.

One of the first questions asked in Dr. Keiser's survey concerned the number of salesmen who called daily. In the downtown districts, where population was densest, 15 per cent of those reporting thought that the number was two or less; 68 per cent reported from three to six; and 17 per cent thought that they had seven or more each day. In the suburban districts, the number of calls was estimated to be somewhat less. Twenty-nine per cent reported one or two; 60 per cent, three to six; and 11 per cent, more than six. These all seem high. Possibly the annoyance of being called to the door when one is busy intensifies the irritation so that it seems to be multiplied. Altogether, though, there were over 400 interviews, and an average of these should be representative.

The question concerning the increase or decrease in the number was heavily on the side of an increase. Two to three times as many thought the number of peddlers had increased as thought there was no change. No one thought there were less. As this study was made in 1931, it was possible that the crest of the house-to-house soliciting had not been reached. Slightly less than half of those interviewed expressed themselves as being unwilling to examine the offerings of peddlers. In the city district, 39 per cent always refused to listen, 42 per cent usually examined the offering, while 19 per cent occasionally listened. In the suburban districts, the attitude was practically the same but possibly a little bit more indulgent. Solicitors from well-known companies were much oftener given a hearing than those representing no firm or only an unknown firm. The receptions, however, were very much qualified by sympathy for the salesman, the courtesy shown by the canvasser, or the convenience of buying from a solicitor. In other words, buying or refusing to buy depended upon too many different influences to be catalogued.

In the New York district, it was found that approximately half of the people did not answer their doorbells, although it was evident that a considerable part of those who refused to respond were at home. The willingness to grant interviews seems somewhat greater in New York than in Philadelphia. More than half of those opening the door to solicitors refused to buy unless they were sufficiently interested so that the salesman was permitted to enter the house. A considerable part of the respondents insisted

that they never bought from house-to-house solicitors, and, of those who did buy, more than half were moved by sympathy rather than by commercial considerations. In this report, it was also evident that the very wealthy homes were the least attractive from the solicitor's standpoint. The medium-income homes were the best, and the poorest homes were less desirable. The conclusions from this investigation, which was made in 1934, are

1. The best times to try to sell are between the hours of 10 and 12 A.M. and 2 and 3 P.M., although the hours 9 to 10 A.M. and 3 to 4 P.M. may yield results sufficient to justify the effort.
2. Housewives will usually give the solicitor an opportunity to tell his story, if they answer the bell.
3. The sympathy appeal aids materially in making a sale.
4. In some lines, like certain food products, it is possible to build up a convenience service which may make for effective sales.
5. Convenience articles of good quality consistent with price are more easily sold by house-to-house canvassing than luxury or shopping goods.
6. Sales people should be clean and neat in appearance, well poised, and prepared to talk intelligently about their products
7. Not many housewives buy from such salespeople, so that one must ring at least 25 doorbells before making 1 sale.
8. Most canvassers must tell their sales stories under adverse conditions because housewives rarely permit them to come into the house.
9. Most of the purchases made from house canvassers are regarded as only fair or as poor in satisfaction given.
10. Purchases are made from fewer than one in four canvassers, even of those given a hearing.

With the experience of the Fuller Brush Company and of the Real Silk Hosiery Company as examples, it would seem that it is still possible to sell from house to house profitably with a margin no larger than that of the retailer plus the wholesalers'; that is, the full spread between manufacturer and consumer.

Articles Most Commonly Sold Direct.—Prof. Keiser gives this terse summary of data, for the ten districts investigated, which shows that almost half of all articles sold direct were brushes. Slightly more than a quarter were electric appliances, with vacuum cleaners occupying the leading position. Slightly more than one-seventh were clothing, with stockings of major impor-

tance. Approximately one-fifteenth were aluminum wear. Approximately one-twentieth were nonclassified and consisted of all articles sold direct, not included in the above groups.

Other articles that lend themselves to direct selling are

1. Articles of a comparatively high price.
2. Articles on which the gross profit per sale is comparatively large.
3. Articles infrequently purchased by consumers.
4. Articles requiring selling ability to overcome sales resistance.
5. Articles for which the consumer has no fixed price in his mind.
6. Articles for which quality can be made superior to price.
7. Articles in which the demonstration plays a major role in the sales talk.
8. Articles that can be advantageously demonstrated in the home.
9. Articles that will wear a comparatively long time.
10. Articles the brand of which is well known if the service element is important.
11. Articles purchased primarily by women or of most interest to women.
12. Articles for which stores do not handle a wide variety.
13. Articles offering a constant income to the direct selling firm; that is, electric appliances to the electric utility company.
14. Articles considered a "tool" rather than "pleasure goods."
15. Articles for which there are a certain number of prospects per each thousand people interviewed.

Selling Direct to Retailers.—A large part of manufactured goods is sold directly to the retailer, although this is far less important than at first glance might seem to be the case. About 15 per cent of all manufactured goods go directly from the factory to the retailer. For many products the selling agents are so well established and the routes for merchandise are so practical that there is little question as to just which channels should be followed. This is the case with most staples. With items highly specialized, it is obvious that the fewer middlemen the more efficient the selling will become. Articles requiring installation, like oil burners, those which require a considerable amount of service, like home refrigerators, automobiles, and radios, and those articles for which spare parts must be kept in stock, such as sewing machines, require a distributor who can perform all these services, and little is gained by having another agency interposed between him and the factory. While it is true in the case of automobiles that sometimes there is a distributor who has charge of a definite territory and appoints his subagents, the greater

number of automobiles are sold direct to the dealer. Large families of products, like those of General Foods and Standard Brands. make up such a considerable part of the grocer's business and he has to order them so frequently that it becomes both economical and efficient for the manufacturer to sell direct, establishing a warehouse or other supply depots in each section. In this case the manufacturer performs some of the functions that are usually turned over to the wholesaler.

Where a large number of units are necessary for complete representation of the product, such as for paints and shoes, the tendency is to sell direct to the retail distributor. The wholesale shoe dealer has been supplanted in a large part of the country. Several price levels, a large number of different sizes in both widths and lengths, and different styles in two or more colors, requires that even a minimum stock include a multitude of units. This being the case, the wise retailer concentrates his purchases as much as possible. This permits a complete stock of the brand carried and helps to avoid duplicating items, which would be unavoidable if stock were secured from different sources.

Again, as mentioned above, perishable products are quite largely sold from producer to retailer. This, of course, does not apply to farm produce, which goes to the commission merchant and often from a commission merchant to a wholesaler. But even then the commission merchant may cultivate retail trade rather than wholesalers. For articles of extreme style and, to quite an extent, for candy and confections that deteriorate rapidly, the sales are direct from producer to retailer. Many millinery goods and women's gowns are shipped by express from the manufacturer in Cleveland or New York to the retail outlets. In this case, the buyer visits the center of supply several times a year and does not wait for a salesman to call.

Where the unit price of the product is high, as for pianos, rugs, furniture, and, to a less extent, watches and jewelry, the sale is direct to retail outlets. The assortment of this type of product can be better maintained if the retailer looks to one source of supply rather than if he tries to divide his purchases among several. It would be a foolish retailer who attempted to stock both Axminster and Wilton rugs. He would be wiser to complete an assortment of either. Under such conditions and with these classes of goods, exclusive agencies are most popular.

Orders for some goods are taken well in advance of delivery, which virtually is selling on contract. This is true of men's ready-to-wear clothing. Dealers put in their orders in the spring for fall delivery, and the manufacturer restricts his production pretty closely to orders received. In the case of men's clothing, there is so large an investment for the retailer that, if he presents a full assortment of any one producer, he will have as much stock as he can handle. The limitations of this situation are that manufacturers of men's clothing do not make all the kinds of wear that are thought necessary for a wardrobe. Overalls and work shirts are not made by manufacturers of men's suits. The same is true of Tuxedos, full dress and cutaways, sweaters, hats, and haberdashery. Obviously, many articles like underwear, socks, sweaters, etc., come from other sources, some of them from wholesalers.

Advantages of Selling to Retailers.—One of the most serious difficulties for most manufacturers is that they are so far removed from their consumers that it is difficult for them to follow changing tastes and conditions. Every time an added agency is interposed between the source of supply and the ultimate consumer, the difficulty of understanding the wishes and needs of the latter are increased. The retailer usually knows his customers much better than the manufacturer can know them, and if he is in direct communication with the producer he can present and interpret the likes and dislikes of those to whom he sells. The same principle holds in the relationship between the manufacturer and the retailer. Sales to consumers in most cases will be the result of joint effort of these parties and, if they are in frequent communication with each other, they can cooperate much more successfully. One phase of this is the best presentation possible of the merchandise that is being sold.

A very large number of items are so complex and involve so many technicalities that they require specially equipped salesmen. This was true of vacuum cleaners when they first came out. The Hoover Company realized the need and placed specially trained salesmen in the leading retail stores, demonstrating and explaining their suction sweepers. A manufacturer of a steel vacuum bottle, which would not break, found that no clerk knew the difference between his bottle and that of the glass vacuum bottles, which were so fragile. His sales manager made a shop-

ping tour and did not find a clerk, even in New York stores, who could give him a sensible reason why his product was sold at a higher price than a competing but less serviceable glass bottle.

Where a wholesaler or other middleman intervenes between the manufacturer and the retailer, education of retail salespeople becomes so difficult as to be impractical in most instances.

As stated above, the sale of much merchandise results from the combined efforts of the manufacturer and retailer. The more technical the product and the more educational work in the nature of demonstrating necessary to sell it, the more assistance the manufacturer can and should give his distributors. Quality goods, even such staples as extracts and spices, need to be explained to ultimate consumers, if they are induced to pay the price necessary to secure the premium grade. This is also true of a multitude of products. Few grocers and far fewer grocery clerks will make the effort to learn even the essential facts about their products on their own initiative. The manufacturer's salesman can tell and retell the story of quality, of what it consists, how it is secured, and what its advantages are until even the most phlegmatic clerk will become familiar with it. The manufacturer can seldom do this educational work except through his salesmen.

If the distributor understands the aim and extent of the manufacturer's advertising, he will cooperate with it much more effectively than if he has to take it on faith. With a new campaign or in explaining a continuous campaign, the salesman can arouse an interest and an enthusiasm that it is impossible to inspire by broadsides or any other advertising to the dealer. When he understands how his profits are to be affected by the manufacturer's advertising, he will cooperate with it.

In many advertising campaigns, the cost is shared by the distributor. It is obvious that, if retailers are to be induced to spend their money to help sell some special brand of merchandise, it will require salesmanship by the manufacturer to convince them to cooperate. This is comparatively easy when the manufacturer's salesman calls regularly, is known personally, and is liked by the store manager.

Disadvantages in Selling the Retail Trade Direct.—First of all, the amount of capital required is very greatly increased. Instead of having a sales force adequate merely to call on the wholesale trade, that number must be increased to give an adequate cover-

age for the vast number of retailers. Occasionally, this may result in an economic saving. If the manufacturer employs no more salesmen than the wholesaler would employ for the same district, then the efforts of the ones who call on wholesalers are not duplicated. But selecting, training, supervising, and checking the work of a large sales force greatly complicates the manufacturer's sales problems. The number of accounts will be multiplied by hundreds. For example, one manufacturer of a popular-priced watch had 75,000 accounts, running from $3 to $200. The amount of office work, correspondence, and bookkeeping in carrying such a large number of customers is stupendous, and the number of clerks required to look after the accounts, make out the necessary documents for shipments, and trace goods that go astray in shipping will be extensive.

If for any reason the factory finds it necessary to close down for a time, the factory workers do not expect to have their pay continue, but that is not the case with either the sales force or the office force. It is very difficult to lay them off and have them available again when business is resumed. So it becomes important to provide continuous operation if sales are to be made direct to retailers. Merely to mention the subject of credits and collections for a multiplicity of accounts running into the thousands presents a picture of difficulties in extending credit and making collections that is formidable. The farther one is from his customer, usually the more difficult it is to carry on business, and that is generally true of extending credits and making collections.

Custom often dictates the method of distribution. Corsets have traditionally been sold direct to consumers or to retailers, and this is the outstanding example of a type of merchandise in which women are successfully employed as traveling sales representatives. Men's hats, especially those which are sold under the manufacturer's brand, are for the most part sold direct to the retailer. The same is true of a large part of the better grades of hosiery and shirts. Proprietary medicines and similar items which require aggressive salesmanship are also sold direct to the retail trade.

Super Markets.—As we understand the super market, it is a growth of the present decade. In 1932, there were about 300 institutions on the Pacific Coast which could be classed under

this heading. From that time on, the growth was extremely rapid. In 1936, the number had increased to 1,200, and these were spread over 32 states. A year later, 3,066 were counted in 47 states. In the fall of 1939, the count was 4,680 for the country, in addition to nearly 1,400 self-service markets owned by the corporate food chains. The Atlantic and Pacific Tea Company led with 1,085. The American Stores Company of Philadelphia was a poor second with 148. Nearly all the food chains are going into the self-service stores, which are run along practically the same lines at the super markets. *Super Market Merchandising* defines a super market as follows:

> A super market is a highly departmentalized establishment with adequate parking space, dealing in foods and other household merchandise, either wholly owned or with some of the departments leased out to concessionaires, doing a minimum of $250,000 annually. The grocery department, however, is operated on a self-service basis.

Practically all the goods that were handled by the early super markets were packaged groceries. The stock has grown until now many of these stores have meat departments, dairy products, green goods, packaged drugs, hardware departments, newsstands, wines and liquors, shoe-repair shops, lunchrooms, and soda fountains. Still others have added some of the smaller items usually found in dry-goods stores, besides stationery and a limited line of dishware. Frequently these separate departments are leased out to concessionaires, just as many of the departments are leased in the large department stores. This is not uncommon for the meat and fish departments, poultry, and dairy products. Beauty parlors and other service departments are commonly leased.

There are a number of advantages which the super market enjoys over competitors. Approximately 6 per cent of the gross receipts of the food stores goes to pay for clerk hire. Deliveries commonly run to 2 per cent or even 3 per cent of sales. Rent is up to 2 per cent of sales. The "supers" eliminate practically all the expense of clerk hire; at least it is reduced to a fraction of what it costs the regular grocer. Rent is also much reduced,[1] and

[1] In order to get parking space most of the "supers" are not located in the hign-rent districts. In the largest cities, this may, or may not, be the case.

the delivery charge is wholly eliminated. This makes it possible for the super market to operate on an average expense of 14.23 per cent of sales. Some of the most efficient are able to reduce this to 12.14 per cent, and the highest does not exceed 17 per cent. This compares with 17 per cent to 22 per cent for independent grocers and 16 to 20 per cent for grocery chains.

With the rapid growth of the chains, most of which offer their own brands, nationally advertised products have declined as a part of the grocers' total business. The "supers" have reversed this trend with striking results. Now nationally branded food products are gaining rapidly not only in the volume sold but in their proportion of the day's total sales.

Advantages Claimed for the Super Market.—In addition to low operating costs, the super markets are in a strategic position from several angles.

They buy in large quantities and so enjoy the best terms offered by suppliers.

They are able to make mass displays, which are so impressive to buyers.

A rapid turnover ensures fresh merchandise.

Many of the household needs can be secured under one roof.

Parking facilities are a part of the plan of the super market.

They provide self-service, which is pleasing to many women. The opportunity thus offered to examine products in a leisurely way and make an unhurried selection is in favor with shoppers.

It is not uncommon for one super market to be visited by from 40,000 to 80,000 a week. On the opening day some attendance figures have been recorded that seem to be almost unbelievable. When the Big Bear opened in Elizabeth, N. J., it had approximately 150,000 visitors and customers the first day. It has repeated that experience on at least two occasions since. There is something about going to buy where many others are buying that also seems to be appealing. This immense traffic also makes the store displays more valuable.

The super markets are by no means evenly spread over the country. In some places they are more popular than in others. In California there are more than in any other four states, 1,423. This may be accounted for in part by the large varieties of fresh fruits and vegetables almost every month—more so than anywhere else—and in part by the good roads and very large

number of automobiles. California weather also invites women outdoors the year round to shop in person rather than order by telephone. New York is the second largest state, with 588 super markets, and Pennsylvania is third with 396. Every state, except North Dakota, is represented in the list. Idaho and Mississippi have but two each, but other states are well represented.

M. M. Zimmerman, editor of *Super Market Merchandising*, claims the following advantages for these institutions:

1. Tremendous traffic.
2. Large volume of "branded" products under one roof.
3. Rapid stock turnover.
4. Low operating overhead.

It is estimated that more than 15 per cent of the grocery trade is now handled by super markets, as compared with approximately 25 per cent by the corporate chains, including their super markets.

Origin of Super Markets.- Just where the super market started and when, are matters for further investigation. That, as a factor in our system of distribution, it has assumed a position of importance only in the past decade is generally recognized. Authorities differ as to what constitutes a super market, just as they differ about what constitutes a department store or a chain of stores. The definition offered by M. M. Zimmerman is given on page 107, while Victor Pelz, director of research for General Foods, maintains that no one has yet been able to make a definition that is acceptable. He points out many exceptions to the definition of Mr. Zimmerman.

An analysis of this definition may help to clarify it. According to the stated terms, the salient requirements for a super market are

1. A departmentized store, primarily selling foods.
2. The grocery department is operated on a self-service basis.
3. There is ample parking space in connection with the store.
4. Some departments may be operated by concessionaires.
5. The minimum annual sales to permit classification as a super market is $250,000.

The super market is an outgrowth of the struggle of the independents to meet the competition of the chains. The first striking innovation was the establishment of cash-and-carry stores, following the success of the cafeterias, which originated in Los Angeles the first decade of this century.

The chains sold for cash, gave no delivery service—or a limited service at best—featured packaged goods, and offered only limited varieties. By "limited varieties" we mean that with such goods as spices, the slow sellers like cardamom, turmeric, and marjoram were often omitted.

During the World War there was much talk of organization, cost accounting, and analyzing business functions. This propaganda was particularly influential with grocers, who, feeling the pinch of competition with the chains, were scrutinizing every expense to eliminate any avoidable item. It was roughly estimated that extending credit, making collections, and maintaining a delivery cost about 10 per cent of gross sales. The price-maintaining manufacturers commonly allowed that discount to cash-and-carry stores and still assumed that they were maintaining prices.

An Early Self-help Store.—One of the very early stores to adopt the super market methods was under the management of Cecil Shaver at Bakersfield, Calif., mentioned above. Mr. Shaver's thinking was so penetrating and so logical and his methods of investigation so well planned that they could still be followed.

A chief expense of most grocery stores, then as now, was clerk hire. Few managers were able to reduce this item below 6 per cent of gross sales, and it frequently ran as high as 9 or even 10 per cent. An attempt further to reduce this item gave Shaver the idea of a self-help store, as well as cash and carry. He knew from observation that a number of mail-order grocery houses were sending food products into Bakersfield. He wrote for catalogues to all that he knew and instructed all who worked in his store to give him the names of all such houses that came to their attention. He soon found himself bombarded with promotional material from more than a dozen institutions that wanted to sell him food products by mail.

A count of the grocery clerks in town revealed that, if they all worked 18 hours a day, 6 days a week they could not wrap up all the groceries necessary to supply the trading area of which Bakersfield was the center. Shaver had already carefully compared prices and realized that there was a sharp difference between what the local stores charged and the prices quoted in the catalogues. But he was unable to estimate the shipping charges

on small shipments, including the drayman s fee. So he secured the names of some of the out-of-town buyers and paid them a call.

Frankly admitting that he would like to have the trade of the respondent, he further made the disarming confession that he supposed his prices were too high. A friendly discussion followed as to the amount saved on different items by buying them from mail-order houses. Shaver was at last convinced that, if he could eliminate the expenses represented by clerks' wages, delivering, and credit losses, including the cost of making collections, he could easily meet the mail-order prices and make a good profit. He decided to experiment.

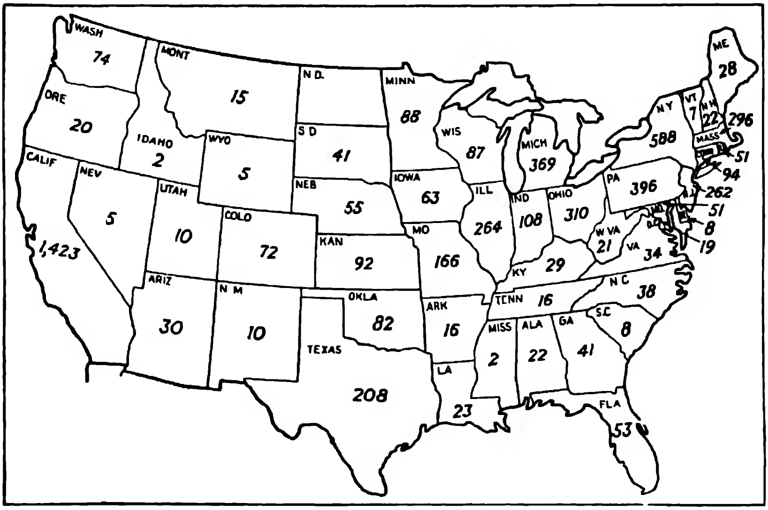
It was in the berry season and he contracted for a large number of baskets to be delivered at his store Saturday morning. Then he advertised these berries at a very attractive price, but emphasized the terms of sale "strictly cash and no deliveries—not even with other goods." Long before noon the supply of berries was exhausted and Shaver was convinced that a self-help store, with no credit and no deliveries, would go. Soon after he opened such a store, meanwhile continuing his service store as formerly. The new store was a success from the start, and strangely, his old store continued to grow. The story was related in one of the trade papers for grocers, and soon there were many imitators.

Rapid Growth of Super Markets.—Although the store described above was opened about 1916, it does not seem to have been the first. Whatever others there may have been were unknown to Shaver when he tried his experiment. All kinds of trial merchandising plans followed, such as dividing a store by a wooden rail and running one side as a self-help store and the other as a regular. Few were successful.

Then someone thought of applying the method of the self-help store to a stock of groceries stored in a low-rent district. A large storehouse was utilized for a grocery. This facilitated parking, which was fast coming to be a problem in shopping, and further reduced expenses by lowering the cost of rent. This paid so well that more venturesome merchants began to erect specially equipped buildings at great cost to house the huge self-help stores that developed. Other items than packaged goods were added to the stocks, many of the new articles not being adapted to sell without clerks. Still the growth of the super markets was slow. In 1932 there were about 300, all in the Pacific states. The number and

location of these markets in 1939 is shown by the accompanying map.

Various reasons in addition to low prices are given for this rapid growth. The increase in the ownership of automobiles and the extent of good roads have encouraged women to do their shopping at the large stores, where stocks are complete. Concentration on well-known brands has created confidence in quality. Rapid stock turnover has kept goods fresh. There is little waiting for clerks, no matter how large the crowd. Mass displays are attrac-



Map of the United States giving the number of super markets in each state.

tive, for women like to have a variety to choose from. When making their own selections they can be as leisurely as they like.

How Important Is the Super Market?—M. M. Zimmerman, quoted above, estimates that the average super market sells as many goods as 18 to 20 independent groceries. In some cities, as Houston, Tex., more than half the groceries sold are bought from the super markets. He also estimates that, while the corporate chains, sectional and national, sell from 25 to 30 per cent of the groceries supplied, the super markets sell 15 per cent, which amounts to 1 billion dollars as "a conservative estimate." That would be $200,000 each for 5,000 separate institutions. This does not exactly square with a provision of his definition which sets a minimum sale of $250,000 for qualification as a super mar-

ket. However, Mr. Zimmerman has more convincing statistics than we have found elsewhere, and we are inclined to accept them even with the necessary tolerance.

It is not in food supplies alone that the super markets are becoming important. Table 1 gives a breakdown of the average sales according to departments.

TABLE 1.—AVERAGE PERCENTAGE OF DEPARTMENT SALES

Groceries	48.95
Meats	19 88
Produce	14.23
Bakery	4.00
Drug, tobacco, and candy	5.56
Delicatessen and lunch	2 68
Dairy	4.70
	100.00

A survey of 500 super markets in 1939 by *Super Market Merchandising* revealed the following goods offered by different markets.

TABLE 2.—PERCENTAGE OF SUPER MARKETS HANDLING SPECIALTIES OTHER THAN FOOD, BASED ON A SURVEY OF 500 MARKETS IN 42 STATES

Item	Per cen of total	Item	Per cent of total
Drugs	20	Paper napkins	98
Cosmetics	25	Paper trays	46
Patent medicines	15	Candy and gum	93
Face tissues	82	Automobile oil	37
Razor blades	61	Cigarettes	92
Liquors	21	Cigars	68
Wines	28	Tobacco	82
Beer	44	Magazines	16
Hardware	22	Lunch counter	20
Electric bulbs	84	Soda fountain	16
Electrical supplies	22	Stationery supplies	20
Drinking cups	66	Frosted foods	40
Glass jars	71		

These are by no means all the classifications of goods found on sale. Hosiery, automobile tires, and other supplies, beauty parlors, dry goods, cut flowers, and drug departments were also represented. Just how far the super markets can go in add-

ing other classes of merchandise to their stocks is a matter of conjecture.

Why the Super Markets Succeed.—Some of the advantages of the super market have been stated; for instance, large stocks, well-known goods, time for leisurely inspection and selection, etc. It may be interesting to make some comparisons to indicate the extent of these advantages. For example, what are some representative costs of transacting a business by the different kinds of stores? Few independent service groceries can operate on a margin as low as 20 per cent of sales. Others require 28 per cent or more.

In 1933 the FTC investigated 770 grocery stores in four cities. The "gross margins" ran from 25.45 per cent for the independents to 28.91 per cent. In competition with these stores the chains maintained markups of 21.90 to 26.25 per cent. These do not compare favorably with super markets, which average 14.23 per cent with a low of 12.14 and a high of 17 per cent. Different departments are shown in Table 3.[1]

TABLE 3—AVERAGE SUPER MARKET MARKUP

	Per Cent
Groceries	14 4
Produce	24 1
Meat	24 8
Delicatessen	24 0
Baked goods	25 3
Candy	32 5
Dairy	14 0
Tobacco	19 3
Drug	31 75

Good management has marked the development of super markets. It was recognized from the start that merely low rent and a saving on clerk hire were not enough to make a success of a store doing a quarter of a million dollars' business in a year, so locations were selected with care. Well-known and acceptable merchandise was offered, and this in such complete assortments that customers were assured against disappointment. The volume of business was sufficiently large so that newspaper advertising could be used economically. That is an advantage that the chains have enjoyed over the independents. Where

[1] Figures from a circular issued by *Super Market Merchandising*, November, 1939.

rates ran from $1.40 to $10 or $15 a column inch, the independent could not afford to buy enough space to make an adequate showing. The chains having from 3 to 100 stores could divide the advertising costs among them and thereby keep the expense for each store at a profitable figure. The same was true to a less extent of store display material. The super market, selling thousands of dollars' worth of goods in a day, could also profit by advertising, even when the space rate was high.

The Chain Store.—The average man on the street and most students, when the chain store is mentioned, think of Woolworth or the A & P. These, of course, are great institutions, and the most phlegmatic observer could not escape being aware of their influence in American retailing. But they are only 2 in a total of 6,000 chains that operate in the country. Some are of formidable size, but most are small or even tiny, with three or more stores under the same ownership.

In so far as the manufacturer is concerned with his distribution policy, the chain stores are important because of their different ways of doing business compared with the leading independents. The chains buy a considerable part of their supplies direct. J. P. Nichols in *The Chain Store Tells Its Story* credits the chains with getting 70 per cent of their merchandise direct from the producers and 30 per cent from wholesalers. If that is applied to grocery chains, the amount of wholesale grocers' sales involved is considerable. The same author credits the chain grocery stores with 25 per cent of sales from their own brands. The other 75 per cent is not analyzed, but, with the bulk goods out, the national brands probably do not greatly surpass sales of the private brands.

It is not merely the competition with the private brand that is disturbing to manufacturers. The chains demand and threaten to boycott manufacturers who do not give them special concessions. The Robinson-Patman Law was enacted in order to protect the independent stores against the unfair competition created by advertising allowances and scores of quantity discounts which are available only to the great chains. However, the manufacturers of food products still have a good deal of difficulty in arranging a price system which is satisfactory to the chains and also to the independents. The chains broadcast instructions to their local store managers, directing them to sell

their own private-brand merchandise whenever possible. Then they will go to two or three manufacturers who supply the same kinds of merchandise and try to beat them down on the ground that they will not handle their products unless special concessions are given in prices which practically eliminate all profit. These prices and concessions are demanded on the ground that the chains promote the sale of such goods.

It is evident that manufacturers have been unable to cope with this situation themselves. Even though they are aware of the fact that their competitors, as well as themselves, were being solicited for special prices, they were induced to grant advantageous terms that were often of great value to the buyers. The chains would push their own brands as far as possible. That was well understood by every manufacturer who supplied them. Yet these same manufacturers, knowing that their competitors were also being pressed for special prices, made valuable concessions. The Robinson-Patman Law virtually saved a lot of manufacturers from themselves. The results following this legislation are

1. The chains continue to feature their own brands.
2. They use national brands as loss leaders and demoralize the trade of the independents
3. They promise all suppliers but are unable or unwilling to give more than routine help to any

This condition has been very much improved in the last few years, but much remains to be done. It seems to the authors that it is the manufacturers themselves who will have to provide the remedy. They must get up their courage and refuse to sell to the chains on any other than a profitable basis. If a manufacturer's goods are not profitable to a chain store as merchandise, offering a bonus will not get the support of the store. The manufacturer should look for other outlets.

Back in 1924, the Blackman Company made a study of the chain-store business which it called "Selling through and to Chain Stores." There were a considerable number of instances in which the manufacturer cooperated in special promotion efforts. Such cooperation is apparently decreasing every year. In his book,[1] J. P. Nichols touches very lightly on this subject, but he does present a few accounts. One was the featuring of peaches

[1] "The Chain Store Tells Its Story," Institute of Distribution, New York.

when they were at a ruinously low price; nothing is said, however, about the prices being increased to the growers. Another was the extending of the use of cotton and still another was the sale of mutton during a period when the shortage of stock feed made the supply of meat, because of excessive slaughtering, far outrun the consumption. On the face of it, this seems to be a shrewd move on the part of chains to take a surplus of merchandise and distribute it at a handsome profit to themselves. In this case, there is only admiration for good merchandising. However, there does not seem to be any fixed plan of cooperation in sales promotion between the producers and the chains as distributors.

The Economies of the Chain Stores.—Many studies have been made to determine the amount saved to customers of chain stores over what would be paid to the independent distributor. Although the FTC has paid out vast sums to get such information and many independent studies have been made, the results have been far from conclusive. While the FTC cites cases of comparative costs of a great number of chains and independents in different cities, the conclusions are by no means convincing.

Investigators sometimes ignored difference of quality. That overshadows the whole study, in the minds of the authors. To get inferior products for less money is by no means an indication of saving.

There does seem to be some worth-while saving to customers of the chains and evidence that the chains' employees are as well paid as the independents, or better, yet the comparison involves various grades of independents rather than the best, and, until we get a more accurate picture of just how many inefficient stores were involved in the investigation, it will be impossible to arrive at any definite conclusions.

Even the chains do not advocate that it is a good practice for the manufacturer, or for them, to get their entire supply from one source. Too many things may happen. If the manufacturer fails, the stores are left without an immediate supply. If some other manufacturer underbids the original supplier, he may lose all his business and be ruined.

So far it has not been shown that the chain stores are any more efficient in conducting a warehouse business than the wholesalers or the regular warehouse services that are offered by the organized companies. This is one of the savings that the chains have often

claimed for themselves. In some instances there is a considerable saving in the cost of selling where sales are made direct to the chains. If the manufacturer can take his samples to the chief buyer and have him accept an order for distribution to the different chain warehouses, the cost of selling is naturally reduced, and this saving in cost can be shared by the stores and part of it ultimately passed on to the consumers. Too often a product is merely put on the accepted list and then the manufacturer has to send salesmen to the local stores to get definite orders. When this is true, there is little or no saving in selling the chains compared with the independents. Furthermore, this frequently results in requesting the manufacturer to deliver the goods to the various stores. This may offset any saving there may have been otherwise. The chains have not made a very good case for themselves in showing that they are able to handle merchandise less expensively than equally intelligent independents.

It must be conceded that the chains have had a beneficial influence in improving the business of the food stores and of drugstores and that they have practically monopolized the variety-store field. Both grocery stores and drugstores are far better conducted than 25 years ago, and both are more attractive. The chains pioneered the way in securing better locations, in providing better store arrangement, better bookkeeping methods, and a better selection of stock—that is, a more balanced stock, buying each item more accurately in proportion to its sales. They have exercised more care in training salespeople than was common with independents. The chains have sold primarily for cash and have given considerably less service than the ordinary independent. Part of this decreased service comes in the completeness of stock which the independents handle. Chains concentrate in fast-moving merchandise and fail to stock items that move more slowly. Inasmuch as slow-moving items require larger margins in order to be profitable, the comparison of the cost of doing business of the two systems is further complicated. Where the independent presented a full stock and the chains had a limited stock, it was notable that the chains operated on a smaller margin.

There is nothing so revolutionary in any of these practices that the keen independent was not able to adopt them and conduct his store as efficiently as the chains. Many times the independent was a keener merchant, working on his own capital, building

his own business, while the manager of the chain worked on a salary and had little interest in building up a real institution which would be a life-long business. It is true he might have advanced in proportion to his success, but that is not comparable to a successful merchant who becomes a leader in his community and one of the chief businessmen in the district. From the social point of view, the evidence is heavily in favor of the independent. From the economic stand the chains are able to justify their existence.

Taxing the Chains.—Numerous states have passed laws assessing taxes against the chains which are graduated according to the number of stores in the chain. This does not necessarily mean that all the stores that are counted need be in that state. For example, a chain with a thousand stores, only ten or fifteen of which may be in Louisiana or Colorado, will be taxed on the stores in these two states at the same rate as if the whole number were in one of the states. The idea of many of these laws is to protect the local merchant or independent against the chain. In most of this legislation, neither the legislatures nor the people at large seem to realize that they are spreading a tax on themselves. Perhaps a clearer way to state it is to say that they are subsidizing inefficient merchandising, in which the public is the victim.

Suppose that there are 50 units of a chain in one of the mentioned states and that they are taxed at the rate of $100 each. This means that they will have to raise prices sufficient to cover this assessment. It also means that the independents will raise their prices to the same extent that the chains are compelled to raise theirs. As a result, the people of the state will pay a higher price to cover the amount that the chains are taxed, plus an amount that represents all the increased prices of the independents. If there are 50 stores, each of which has been taxed $100, that means a $5,000 increase in prices for the chains. Suppose the chains are doing only 25 per cent of the business, which is common in the grocery field. That would mean chain prices will be raised $5,000 in the aggregate The independents will raise their prices in the same way, making a total of $15,000 for them. Hence the people of the state will pay $20,000 more for their groceries than they paid before the tax went into effect, and all this to collect $5,000 from the chains.

This kind of tax is scarcely defensible and, where it has gone to the vote of the people after an educational campaign, it has been

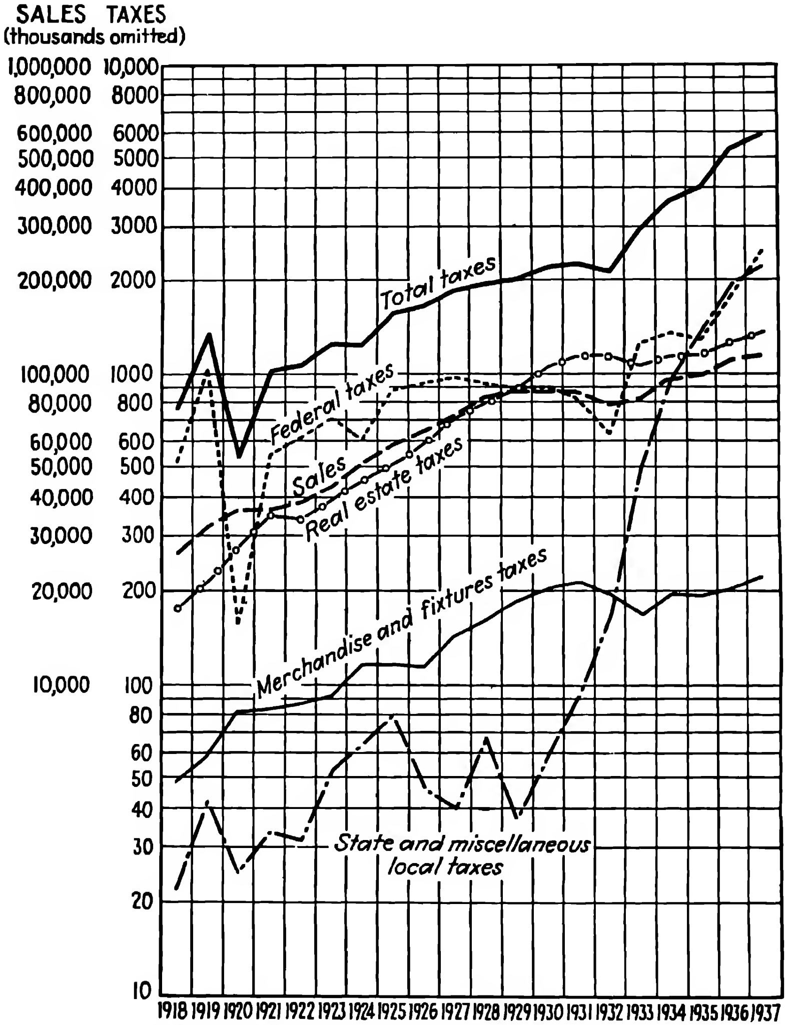


Chart showing how much more rapidly taxes on chain stores are growing than sales by those stores—(*Hugh M. Foster in Printers' Ink Monthly, November*, 1938.)

defeated; at least that is what happened in California. The opinion of the authors is that the best way to meet the competi-

tion of the chains is to provide sufficient education in merchandising so that the independents will be as efficient as the more carefully trained employees of the chains.

Where Departments Are Leased.—A development in retailing is the rapidly growing practice of leasing certain departments of the city department stores. This movement does not confine itself to stores of any particular size. It has been spreading over the country for the past 15 years. While advertised brands have been less affected by these leases than unadvertised, every manufacturer, whether he advertises or not, will be interested in a summary of the developments of leased departments.

There are three distinct classifications of department lessees. First, there are syndicates, specialists in one line of goods, that maintain central offices, generally in New York, and control their departments much as do chain stores. Some of these minimize merchandising risks by shifting not readily salable goods in a department in one locality to the lessee's department in another locality. Some, especially those handling women's ready-to-wear, find it wise to give each department manager the freedom generally granted the department-store buyer, the chief services of the central office being to purchase what the department manager wants and to act as a clearinghouse for style and system information. The syndicate is most common in millinery, shoes, and ready-to-wear and is the most important of the three types.

A second type of department lessee is the manufacturer who organizes a subsidiary company to lease the departments. Departments commonly leased in this way are patterns, sewing machines, books, wallpaper and paint, and candies.

The third type is an individual or one-man lessee. This type is in the minority, but is found sometimes when the store owner has known someone personally who he believes is able to take over a department that the management has found difficult to handle with a paid buyer, or a department that is just being introduced.

Terms made with lessees vary greatly, a common procedure being a yearly guaranty to the lessor of a certain sum plus a specified percentage of gross sales, averaging about 15 per cent.

The departments that are leased may be classified as service departments and merchandise departments. Among the service departments often leased are beauty parlor, optical goods, restau-

rant, and barbershop. While some merchandise is sold, these departments are selling chiefly specialized services, quite distinct from the regular merchandising activities of the store. There seems to be little objection to leasing such departments, which add to store prestige but are so foreign to the merchandising function.

Pros and Cons of Leasing.—The wisdom of leasing merchandise departments is a much-debated question, the general consensus seeming to be that they should be leased only as a last resort. A report by the U. S. Department of Commerce on "Department Leasing in Retail Stores" gives three reasons for leasings:

1. Store expansion with least capital outlay.
2. Superior purchasing facilities
3. Detailed merchandising knowledge resulting in increased volume.

The following arguments may be offered to rebut each of these three points:

1. A merchant may shift the capital risk of expansion to a lessee but he must also shift the reward that goes with successful expansion. At all events, if the department is to be continued, the capital invested might earn money for the merchant rather than for an outsider. If there is real need for expansion, the necessary capital can generally be obtained without resorting to leasing.

2. While the lessee has purchasing facilities superior to the independent store away from the market with no market representation, his facilities are probably not superior and often are inferior to a great many established buying offices with which the store might become associated.

3. A store should be able to hire a buyer of at least the caliber of the department manager supplied by the "syndicate" lessee and make the profit that would revert to this lessee. The necessary market contacts would be furnished by the store's market representative.

There are cases, however, where the specialized knowledge of the lessee cannot be economically replaced by department buyer and market representative. If the department is very small and yet demands highly specialized skill, a merchant will not be able to afford a special buyer for it, and a buyer handling other departments will not be able to do it justice. Here the lessee with low-

priced employees in the departments and an expert buyer and manager in the central office can make maximum use of this specialized knowledge where the merchant would find it utterly impossible.

The leased department, then, seems justified where the line of service is wholly distinct from the ordinary merchandising function or where the plan proves the most economical method of providing specialized talent. In other cases, it seems unwise because the merchant thereby transfers his proper function to others. Such transfer tends to jeopardize good will, for it is generally a difficult task to see to it that leased departments adhere to store policies regarding returns, allowances, and advertising statements. Among the primary advantages of the department store are its ability to give itself the stamp of individuality through clear-cut policies enforced in all departments and its exercise of central control. Leasing tends to undermine these advantages. Again, there is the danger that the leased department will be successful at the expense of the rest of the store.

TABLE 4.—PER CENT OF STORES HAVING LEASED DEPARTMENTS

	1929	1934	1936	1937	1938 (est.)	Range of per cent paid lessee
Millinery	56.3	67.9	67.9	67.7	61.5	10 - 25
Beauty parlor	45.9	50.5	57.4	60.	56.9	12½-25
Photographic studio	21.6	39.1	41.4	44.6	43.1	12 - 25
Shoes (women's)	26.4	35.6	39.1	26.2	26.2	9 - 26
Shoe repair	11.5	28.7	29.9	30.8	30.8	15 - 20
Sewing machines	13.9	17.2	22.9	38.5	33.8	10 - 20
Paints and wallpaper	12.7	16.1	21.6	29.2	27.7	12 - 28
Furs	3.4	6.9	12.7	12.3	10.8	10 - 20
Candy	13.9	14.9	12.7	7.7	6.2	5 - 20
Luncheonette	4.6	9.2	8.0	13.8	13.8	
Food	3.6	8.0	6.9	3.1	4.6	
Men's clothing	3.4	5.8	4.6	1.5	3.1	
Dresses	1.2	3.4	3.4	3.1	3.1	
Coats and suits	1.2	3.4	3.4	4.6	4.6	
Furniture	1.2	2.3	3.4	4.6	4.6	
Optical goods	....	....	....	32.3	30.8	
Vacuum cleaners	....	....	....	20.0	20.0	12 - 36
Shoes (men's & boys')	....	....	...	15.4	13.8	
Watch repair	....	...	...	12.3	10.8	

Departments Commonly Leased.—There seem to be no adequate figures on the extent of department leasing but reports based on questionnaires sent out by the National Retail Dry Goods Association in 1929, 1934, and 1936 furnish the most tangible information. The departments most commonly leased are shown in Table 4.

TABLE 5.—THE NUMBER OF LEASED DEPARTMENTS FOR 1938

	No. of stores	Sales	No. of proprietors
Leased department independent	3,517	48,041,000	3,408
Leased department, chain	3,664	108,070,000	112

TABLE 6.—PER CENT OF STORES PROVIDING SERVICE TO LESSEE AT NO EXTRA COST

Charge sales handling	81.2
Window rental	75.2
Losses from bad debts	72.9
Delivery service	71.7
Maintenance	68.2
Depreciation on fixtures	52.9
Floor cashier	48.2
Wrapping	47.1
Supplies	37.6
Receiving and marking	27.1
Fire insurance	16.4
Liability insurance	15.3
Advertising	4.7
Compensation insurance	3.5

Effect of Leasing on Selling Methods.—The national distributor cannot afford to disregard the trend toward associations and central buying as evidenced in part by the increase in department leasing. National magazine and newspaper advertising is as necessary as ever to create a pulling power for specific goods, but the job of salesmanship is more and more being concentrated in the market centers, particularly New York.

For some time large department stores have done much of their purchasing in the market but the smaller ones have depended chiefly on traveling salesmen and wholesalers. With the increase in departments leased by syndicates, a goodly portion of goods distributed in these smaller stores is now being purchased cen-

trally. It is true that the lines so merchandised by syndicates do not represent the big advertisers. Patterns, sewing machines, candies, and radio probably represent leasing by manufacturers. Shoes, millinery, and women's ready-to-wear are advertised by the manufacturers to some extent, and these manufacturers should put emphasis upon contacts with New York offices and buyers while in the market more than upon traveling salesmen. Since the majority of leased shoe departments seem to be operating at a loss, however, there may be no increase in such leasing.

The practice of leasing has not made many inroads into general dry-goods lines, such as piece goods, art needlework, corsets, draperies, underwear, floor covering, hosiery, infants' wear, laces, bedding, neckwear, notions, sweaters, bathing suits, blouses, toys, sporting goods. It is doubtful that these departments will ever be commonly leased, but such goods are more and more being bought centrally, if not through the agency of a lessee, then through the agency of a buying representative.

The manufacturer's problem is more and more becoming one of making contracts with buyers in the market rather than in the stores. Such a change in selling methods should result in great economies in manufacturers' selling costs.

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CHAPTER VII

Evaluating Wholesalers

Manufacturer's Distribution Contrasted with Farmer's.—The produce of the average farm constitutes such a small part of the general supply that the farmer can do little in regularly promoting sales for his products. Selling vegetables, dairy, and poultry products in the near-by village may offer some immediate profit, but it is evident that this form of promotion is much limited Through cooperatives, farmers who specialize in some products, like fruit, goat's hair, or tobacco, may pool their products and thereby collect a volume sufficiently large that direct marketing becomes practicable. For the most part, however, farmers have to accept the marketing machinery as it is made by others. Local buyers, the district assemblers, the shippers, and the commission men all operate independently of the farmer's aid or advice and without much thought for his interests.

In general, this is not true of the manufacturer. He makes some product and his problem of distribution is to get that product into the hands of consumers at the least possible cost. As a manufacturer he has a much more highly standardized distribution system to depend upon than has the farmer. He may sell direct to consumers by salesmen, by mail order, or by establishing market places.

There are certain types of products and services which are so desirable in themselves yet so difficult to present in a way to make their immediate purchase desirable that they are sold direct. Encyclopedias, life insurance, subscriptions to magazines and newspapers, nursery stock, and many other products belong in this class.

Other products are of a nature which can best be distributed by retailers who get their supplies direct from the manufacturers. Obviously this is the case with highly perishable products; as little time should be lost between the factory and the delivery to the consumer as possible. With a large majority of products, however, the unit of sale is so small and the product is so generally used that a wholesaler's service becomes essential.

These are the three main channels for distributing manufactured goods: (1) direct to consumers, (2) to retail stores, and (3) through wholesalers. But there are many intermediaries and many combinations of methods. The distributive functions, whether performed by the producer or by intermediary selling agencies, are as follows:

1. Functions of exchange.
   a. Assembling.
   b. Distributing, or selling.
2. Functions of physical supply.
   a Transportation.
   b. Storage
3. Facilitating functions.
   a. Grading and standardizing.
   b. Financing.
   c. Risk taking.
   d Market information.

While the above is a comprehensive analysis and classification of the services offered by distributors of goods, in common usage the services are usually enumerated: selling; warehousing, securing dealers, delivering, collecting, bookkeeping, advertising, supplying information, processing, and buying. (Converters do such a limited amount of processing that they do not call themselves manufacturers.)

The Wholesaler.—Where the unit price is small and the manufacturer specializes in a few items, the wholesaler is essential. This is easily illustrated in the paper trade. The wholesale paper house carries cardboard, wrapping paper, print paper, book paper, writing paper, and bond, besides many other items. All of these come from different mills. By most of the 100,000 printing shops in the United States, these items are bought and used in small quantities, so it would be an utter impossibility to buy them direct. In the grocery store are some 2,000 items. Obviously, it would be impossible for a retailer to go direct to the

manufacturer for all these different supplies. With the drugstores and hardware stores, it is even worse, as their separate items run to as many as 5,000 or more. A few wholesalers can supply most of these.

It is not merely as a warehouseman that the wholesaler is a valuable distributing agent. He supplies credit. He buys in large quantities from distant manufacturers, paying promptly and selling small lots to retailers, extending liberal credit. The wholesaler sometimes helps to finance both the producer and the retailer. As a judge of goods, the wholesaler is far superior to most dealers. His advice and that of his salesmen not only as to quality of merchandise but as to the best assortments and means of display is often sought with profit. Furthermore, the wholesaler's salesmen may give valuable help in general merchandising and store management, such as what constitutes a balanced stock and the number of price levels most profitable for each class of goods. Nearly every wholesale stock represents numerous products that would require warehousing, either by the manufacturer or by the retailer, if the wholesaler did not make provision for carrying them in the required quantities at a convenient point of distribution.

In the later paragraphs the services most valued by the manufacturers who depend upon wholesalers are considered at length. In Table 7 an attempt has been made to list the various types of wholesalers and to credit them with the different services which each performs. No attempt has been made to correlate those services with the functions given above; however, such correlation is not difficult.

Selling falls under 1 *a*; warehousing under 2 *b*; financing dealers under 3 *b*, etc. Securing dealers, bookkeeping, supplying merchandise service, and advertising are not so obviously classed. Securing dealers is part of selling, as is supplying a merchandise service. Advertising is another part of selling, while bookkeeping is one of the facilitating functions; that is, record keeping is a necessary part of the whole processes of business, including the distribution of goods.

The Troublesome Question of Trade Discount.—With so many classifications of middlemen, all performing some service but some offering many more services than others, the problem of a fair trade discount, or compensation, becomes difficult. If a

full-service grocery wholesaler is given 15 per cent off list as his compensation, how should a cash-and-carry jobber be paid? He concentrates on warehousing and collecting. The common practice is to allow him 15 per cent discount also; then he reduces

TABLE 7—FUNCTIONS OF WHOLESALING

	Gross expense (% of net sales)	Selling	Warehousing	Securing dealers	Financing dealers	Delivering	Collecting	Bookkeeping	Advertising	Supplying information	Supplying merchandise service	Processing	Buying
Wholesalers who supply retailers	13	√	√	√	√	√	√	√	√	√	√		√
Cash-and-carry wholesalers	8 9		√				√						√
Drop shippers (desk jobbers)	6 6	√		√	√		√	√	√	√	√		√
Converters		√	√	√	√	√	√	√	√	√	√	√	√
Industrial distributors	16 4	√	√			√	√	√	√	√			√
Manufacturer's sales branches	10 1 12 5	√		√					√				
Auction houses	2	√	√				√						
General sales agents	4 2–4 4	√											√
Brokers	1–2	√								√			√
Commission merchants	2 5-3 2	√	√				√						
Manufacturer's agents	5 7–6 8	√		√	√		√		√	√	√		
Wagon wholesalers	14	√	√	√		√	√						√
Mail-order wholesalers	21 4	√											√
Voluntary group wholesalers	8 9		√			√	√	√	√	√			√

his prices to his customers. When in competition, the full-service wholesaler often meets the price of the short-service houses. The dealers are the judges of whether the difference in prices of the two jobbers (full-service and cash-and-carry) is sufficient to compensate the dealers for doing their own delivering, paying cash, and selecting their goods. As with every other business, if cash-and-carry prices are too high, customers will be lost; if too low, money will be lost.

The broker, who only buys or sells and furnishes information, is given a small brokerage fee. As he frequently sells to wholesalers, their discount is not changed because of the added pay that is given him.

TABLE 8.—PER CENT OF NET OPERATING EXPENSES FOR A FEW SELECTED INDUSTRIES, SHOWING THE COMPARATIVE COST OF THE DIFFERENT TYPES OF DISTRIBUTORS FOR VARIOUS PRODUCTS

	Total	Amusement and sport goods	Automotive	Clothing and furnishings	Groceries and food (specialty)	Electrical goods
Manufacturers sales branches (with stock)	11	18	7	12	8	8
Manufacturers sales branches (without stock)	6	15	5	6	13	6
Agents and brokers	2	13	6	3	1	6

Some time ago the General Electric Co. attempted to make out a series of discounts for their agents who sold electric bulbs. These discounts covered the usual functions or services. For each function or service a special compensation was arranged in the form of an added discount. For example, collecting on time, keeping adequate stock, selling, securing new agents, etc., were each the basis for discount. The system was abandoned, probably because the schedule of payments was not satisfactory. In Table 8 an attempt has been made to ascertain the cost of doing business for some typical jobbers. Then by comparing services with the expense of doing business a fair approximation is arrived at for the cost of each service. The figures were computed from data given in the 1935 census of business.

As these costs are averages for different kinds of business, they will not be applicable to any specific class of merchandise; but the method of arriving at costs may be applied to any particular line desired.

Until cost-accounting systems are improved to show what part of the expense of doing business is required for each service the enterprise has to offer its customers, only approximations will be either practical or possible. But considering that the fundamental purpose of a business is to render service, it seems only common sense that the cost of the firm's operations should be so analyzed that the expense involved in each part or division of a service can be accurately allocated.

Wholesaler's Functions Most Valuable to Manufacturers.— The value of wholesalers in the distribution of goods varies according to the functions they perform and the particular industry in which they are engaged. In response to a questionnaire sent to a large number of manufacturers, a producer of cereals evaluates his wholesalers for (1) warehousing; (2) delivering; (3) collecting; (4) bookkeeping; no other services are mentioned. This was a national advertiser who does his own selling. In the hardware field the rating was (1) securing orders; (2) warehousing; (3) delivering; (4) advertising. Proprietary medicines rated (1) warehousing; (2) delivery; only these two were mentioned. Another firm put collecting first with these two following in the same order.

A large paper mill, which specializes in bonds and writing papers, named (1) securing orders; (2) delivering; (3) warehousing. Manufacturers of paper specialties put them in this order: (1) securing orders; (2) securing dealers; (3) warehousing; (4) delivering; (5) advertising; (6) collecting; (7) financing dealers; (8) bookkeeping. The preferences for petroleum products ran (1) securing orders; (2) securing dealers; (3) warehousing; (4) delivering; (5) collecting; (6) bookkeeping. With lubricants the preference was (1) warehousing; (2) delivering; (3) securing orders; (4) securing dealers; (5) collecting; (6) advertising; (7) bookkeeping; (8) financing dealers. These are so generally typical of all answers that adding others would only be a repetition.

No one function stood out as being valued above others. With firms doing little or no consumer advertising, selling (secur-

ing orders) was rated highly, as was securing dealers. With extensive advertisers, warehousing, delivering, and collecting were rated highly. This was to be expected. It was surprising to see many firms showing appreciation for the bookkeeping done by wholesalers. If collections had been included, it would have been understandable; but as there was a separate mention of collections, that could not be the explanation. In "soap products" one manufacturer placed bookkeeping second, ahead of delivering and warehousing. He put collecting first so that there was no confusion between the two.

In the following paragraphs the services of full-service and mutual drug wholesalers are analyzed and listed. Later the authors attempt to show operating costs for various types of wholesalers, an estimate which throws light on the costs of each function.

We repeat, accurate analysis of distribution costs cannot be made until accountants set up their own accounts in such a way as to show the expense involved in each activity. Lumping "administration costs" with selling is extremely illogical. Probably it is done so often because the officers are ashamed to make public how much they are paid, especially when they are producing little or no profit for the firm which employs them.

Service Drug Wholesalers. The services offered by the "regular" drug wholesalers are not strikingly different from those offered by similar wholesalers in the grocery and hardware fields. It is largely in the selling activities that the service wholesalers differ from other types, although supplying credit is not included in the risks of most of the limited-service wholesalers.

Under Buying and Selling the following activities are listed by the National Wholesale Druggists Association:

1. Help introduce new items to the retail trade.
2. Aid retailer and manufacturer in creation and increase of demand for particular products by window-display service and instruction of retailer in selling methods.
3. Give full support to manufacturers' merchandising policies and programs in regard to prices, terms of sale, intensive sales drives, and by passing on retail helps and technical information about the product.
4. Travel salesmen regularly and fully, meeting every retailer at regular intervals.
5. Give complete and easily accessible coverage to every retailer as the result of location in every wholesale center.

6. Serve every retailer within a territory, without reference to quantity of purchases, with credit extension as needed and without any special requirements as to conditions of service.
7. Maintain displays of merchandise for retail selection.
8. Distribute in lots smaller than the manufacturer can afford to distribute.
9. Buy in advance of sales and have full stock available for immediate order filling.
10. Select and carry goods suitable for the trade.
11. Forecast needs of trade for staple and sundry lines.
12. Maintain complete stocks at all times.

Other services offered are

1. Provide and maintain full assortment of items needed or likely to be needed in a territory so as to fill orders completely and promptly for both regular and emergency merchandise.
2. Provide warehouse space and special care and protection where needed for all classes of merchandise between time of purchase and sale
3. Assume responsibility for transportation of merchandise to own warehouse.
4. Prepay transportation to customers, or not, depending on competition and trade custom in the territory.
5. Maintaining regular free local delivery service to local customers.
6. Owners provide entire capital for operation of business.
7. Finance manufacturers by buying their stocks, carrying all financing costs save for credit extended by the manufacturers.
8. Finance retailers by extending credit as needed.
9. Provide credit department to administer credit control.
10. Take ordinary business risks.

Mutual or Cooperative Wholesalers.—This type of wholesale house, especially in the drug field, is very similar to the full-service house. Its services, as listed by the Wholesale Druggist Association,[1] follow:

1. Assist in introducing limited number of new items to retail trade.
2. Aid retailer and manufacturer in creation and increase in demand for a particular product as far as can be done without the continuous personal contacts or salesmen.
3. Support manufacturers' merchandising policies and programs to the extent permitted by lack of traveling salesmen and by the lower price policy or rebate system used.
4. Have few or no regular traveling salesmen covering territory intensively but may have good-will service contacts at intervals.
5. Give coverage of membership in those territories where located, selecting for members those who meet certain specified conditions.

[1] "Distribution through Drug Channels," published by the Association.

6. Serve members who conform to such conditions as may be specified as to quantity of purchases, cash payment, or prepayment of goods and other special terms of service.
7. Maintain displays for retailers' selection.
8. Sell in lots smaller than the manufacturer can afford to serve directly.
9. Buy in advance of sales and have stock available for immediate order filling.
10. Select and carry goods suitable for retail trade.
11. Forecast needs of trade for staple and sundry lines.
12. Maintain stocks at all times.

Table 9 has been compiled from various figures put out by the Federal government. The business-census figures have been used in part, and the data provided by the Works Progress Administration, under the direction of the Security Exchange Commission, have provided most of them. The purpose in giving these is to supply a basis of comparison of costs where the services offered retailers differ widely. The table on Functions of Wholesaling (Table 7) can be used in checking the various activities of the three different types of distributors whose costs are given (Table 8).

In Table 10 is shown the conventional breakdown of figures and costs of three different types of large-scale distribution in the grocery field. Comparing such different types of expenses as taxes, rents, royalties, depreciation, and the like in no way illuminates how costs are made necessary by providing service to customers. Whether one of these institutions has an advantage in the actual costs of buying; whether there is a saving in transportation by one which the others have not accomplished, and other items of service that constitute their business are not revealed. These are the things by which their efficiency, or lack of it, should be judged. Again the authors would like to call attention to the fact that, even in the government analysis, administrative costs are lumped in with selling costs. It must be apparent that a considerable part of the administration's activities pertain to other things than selling, and, aside from convenience in covering up the cost of the administration, there seems to be no reason whatsoever in combining these two items. If they were separated, they might reveal some interesting information concerning the real cost of administration of the different types of enterprises. It is also quite possible that with more careful study of administrative costs means could be found greatly to

TABLE 9.—PER CENT OF OPERATING EXPENSE TO NET SALES

Kinds of business	Full-service wholesalers	Manufacturers' sales branches (with stock)	Manufacturers' sales branches (without stock)	Agents and brokers
	Total 12	Total 11	Total 6	Total 2
Amusement and sport goods	17	18	15	13
Automotive	16	7	5	6
Beer, liquors	13	14	11	4
Chemical and paints	16	26	9	10
Clothing and furnishings	13	12	6	3
Coal and coke	9	16	3	5
Drugs (full line)	12			
Drug sundries (specialty)	20	27	21	6
Dry goods (specialty)	11	10	3	2
Dry goods (full line)	14			1
Electrical goods	17	8	6	6
Farm products (raw materials)	6	..	..	1
Farm products (consumer)	10	24	20	3
Farm supplies	12	15	13	2
Furniture	13	14	8	5
General merchandise	7	..	..	3
Groceries (full line)	8	..	..	2
Groceries (specialty)	13	8	13	1
Hardware	18	15	9	6
Jewelry and optical goods	19	11	9	6
Lumber and construction	16	16	11	6
Machinery and supplies	20	21	6	9
Metals and metalwork	13	9	2	3
Paper and its products	18	12	5	5
Petroleum and its products	12	20	14	2
Plumbing and heating equipment	19	20	13	10
Tobacco and products (except leaf)	5	12	2	3
Waste materials	14	..	..	4

NOTE: A breakdown of the cost of hardware salesmen in terms of calls is given in Appendix *D*.

reduce them. In the same way, combining selling costs and administrative costs prevents a careful analysis of what it costs actually to sell goods, and this is the chief item of expense of all the types of institutions considered. Any attempt to compare efficiency is made impossible by the published figures.

Wholesale Hardware Well Organized.[1]—No trade association in the field of distribution that has come to the attention of the author has produced as revealing a set of sales records as the National Wholesale Hardware Association. The tables showing operating expenses for wholesale hardware houses (Tables 11, 12) are condensed from these records. In other ways also this line of business has the reputation of being of high type and high efficiency. The amount of investment for successfully operating a wholesale hardware business is more than for most kinds of goods. This means that only the more substantial types of merchants can engage in it. It is one of the few kinds of business in which the distributor is often a better businessman than the producer.

This Association canvassed a large number of hardware manufacturers in regard to their selling policies. The survey made in 1937 showed that only 30 per cent of all manufacturers of hardware had written sales policies; 40 per cent had sales policies they believed were clear to themselves and to their distributors, although they were not written; 5 per cent were doubtful about their sales policies; 25 per cent had no definite sales policies.

The shortcomings of their sources of supply have been summarized by the hardware wholesalers as follows:

1. They have planned their sales policies on the basis of "all the traffic will bear."

2. Their charge for the service of conversion is out of proportion to real, legitimate costs.

3. They have substituted machine and process for labor, appropriating the great savings for themselves.

4. They have maintained costly branches, high-pressure sales organizations, and specialty men to force their products illegitimately, even in the face of the fact that they are paying the

[1] The following paragraphs of the chapter have been taken from a master's thesis by Ralph H. Langsam, "Distribution of Hardware in the United States," for the Graduate School of Business Administration, New York University, June, 1940.

wholesaler for the service of selling, thus duplicating this item of cost.

5. They have discriminated among their customers, allowing great discounts to some, while refusing them to others.

6. They have charged losses, created in low-price volume sales, to other, less favored customers.

7. They have demanded that wholesalers buy their complete lines in order to obtain certain popular items in the line, then have turned around and sold their popular numbers to chains and catalogue houses, often at much lower prices.

8. They have abused their trade-marks by making the same goods under other brands and selling them at lower prices.

9. They have made their highest quality goods and sold them unbranded to the chains at low prices, thus creating ruinous competition for their standard brands as sold through wholesaler-retailer channels.

10. They have announced a policy of wholesaler-retailer distribution, then sent their specialty men to sell both the dealer and the consumer directly.

Selective Distribution.—Many hardware manufacturers have found it efficacious to adopt a sales policy providing for selective distribution. Still others appoint prominent wholesalers in non-conflicting trading areas as exclusive distributors of their products. These policies tend to give the producer closer supervision of the sale of his line and frequently increase his volume of distribution, because such distributors, in their desire to maintain their appointment, adopt every weapon at their command to do a real selling job rather than merely take orders, as is the case when the manufacturer offers every "fly-by-night," "office-in-his-hat" distributor the privilege of selling his line.

The following is a suggested sales policy frequently adopted by manufacturers pursuing a policy of selective distribution.

Selective Distribution

It is our policy to select a limited number of distributors in a trading area who will work in harmony for the sales promotion and successful distribution of our product.

Resale Prices

It is our policy to suggest such resale prices as will compensate the distributor for services rendered. In territories where we have no dis-

tributor representation, we reserve the right to solicit business and sell directly, in which event we will maintain our own resale prices.

Stocking Distributor Differential

It is our policy to maintain a price differential between the distributor who stocks our products and one who does not.

Cooperation

It is our policy to support our distributors in furthering the sales of our products:

1. By educational and sales promotional activities with the distributor's selling organization.
2. By supplying adequate sales literature.
3. By such other means as will encourage the direction of sales through recognized distributors.

It is our belief that in return for the aforementioned support given the distributor by the manufacturer, the distributor has the definite responsibility of adopting a policy of support to the manufacturer in the distribution of his products by

1. Giving aggressive sales representation.
2. Carrying an adequate stock of the manufacturer's products.
3. Giving proper service to buyers.
4. Cultivating his natural trading areas intensively.
5. Otherwise practicing loyalty to a manufacturer whose policy comprehends sales through the distributor.

Pricing Policies for Wholesalers.—Although most manufacturers are reluctant to furnish information about their costs and profits, the author has succeeded in obtaining the following data relative to pricing from a few prominent manufacturers in the industry.

1. A nationally advertised kitchen household product.

a. Cost of raw materials	$0.22
b. Cost of production	0.75
c. Sales and advertising costs	0.27
d. Overhead costs, including warehousing	0.02
e. Profit	0.16
f. Selling price to wholesalers, delivered	1.42
g. Resale price to retailers	1.75
h. List price	2.75

2. The following figures are a combination of three representative products of a prominent tool manufacturer. They repre-

sent an average of the three popular items, per dozen, and are designed to show the general picture.

a. Cost of raw materials	$ 1.19
b. Cost of production—productive labor only	1.72
c. Sales and advertising costs	.77
d. Overhead costs, including all labor not employed in productive operations and warehousing	3.43
e. Profit	.31
f. Selling price to wholesalers, delivered	7.42
g. Resale price to retailers	10.57
h. List price	16.00

3. A well-known builders' hardware manufacturer supplied the following figures for a product typical of the complete line:

a. Cost of raw materials	27.858%
b. Cost of production	23.873%
c. Sales and advertising costs	11.606%
d. Overhead costs, including warehousing	26.298%
e. Profit	10.365%
f. Selling price to wholesalers, delivered	$11.50 per dozen
g. Suggested resale price to retailers	15.32 per dozen
h. List price	25.56 per dozen

4. A leading manufacturer of steel goods and garden tools submitted the following information for a product which is typical of the rest of the line:

a. Cost of raw materials	$0.17
b. Cost of production	0.57
c. Sales and advertising costs	0.06
d. Administrative, overhead, and warehousing costs	0.10
e. Profit	0.10
f. Selling price to wholesalers, delivered	1.00
g. Resale price to retailers	1.33
h. List price	2.00

5. Another tool manufacturer presented the following figures, all of which are based on one dozen:

a. Cost of raw materials	$0.11
b. Cost of production	1.07
c. Overhead costs, including warehousing, sales and advertising costs	1.03
d. Profit	0.29
e. Selling price to wholesalers, delivered	2.50
f. Resale price to retailers	3.33
g. List price	5.00

6. A very prominent cutlery manufacturer submitted the following data about three items in their line. All prices shown are per dozen.

	Pocket knife	Hunting knife	Slicer
a. Cost of raw materials	$ 1.12	$ 5.54	$ 2.00
b. Cost of production	2.27	3.23	0.98
c. Sales and advertising costs	1.80	3.54	1.17
d. Warehousing costs	0.07	0.07	0.07
e. Overhead costs	3.75	5.33	1.62
f. Profit	2.99	3.29	1.66
g. Selling price to wholesalers, delivered	12.00	21.00	7.50
h. Resale price to retailers	16.00	28.00	10.00
i. List price	24.00	42.00	15.00

The above figures, which are said to be typical of the entire industry, indicate that the wholesaler averages a 33⅓ per cent markup on his cost, or a 25 per cent gross margin on his selling price; and the retailer earns a 50 per cent markup on his cost, or a 33⅓ per cent gross margin on his selling price.

TABLE 10.—PER CENT OF SALES, 1937

	Department stores	Mail-order houses	Chain grocery
Gross profit	28.3	28.3	20.3
Expenses charged to operations—maintenance and repairs	0.8	0.6	0.5
Depreciation and depletion	1.5	1.2	1.0
Taxes (other than Federal income)	2.1	1.1	1.3
Management and service contract fees	0.0	0.0	[a]
Rents and royalties	1.8	1.0	2.0
Provision for doubtful accounts	0.2	1.9	[a]
Selling—general and administrative expense	18.8	17.5	14.5
Total expenses charged to operations	25.2	23.3	19.3
Net profit from operations	3.1	5.0	1.0

[a] Denotes less than $\frac{1}{10}$ of 1 per cent.

Expressed still another way, on the average 50 cents of every dollar spent by a consumer in a hardware store goes to the manufacturer, 16⅔ cents to the wholesaler, and 33⅓ cents to

TABLE 11.—BREAKDOWN OF THE OPERATING EXPENSES OF THE LEADING WHOLESALE HARDWARE HOUSES, 1914–1937

	New England	North Middle Atlantic	South Atlantic	Gulf	South-western	Eastern Central	West Central	Missouri River	Rocky Mountain and Pacific Coast	General average
Management	3.36	2.95	2.22	2.65	2.43	2.28	2.18	2.66	2.10	2.47
Office salaries	2.20	2.12	1.42	1.98	2.06	1.87	2.03	2.30	2.08	2.01
General office expense	1.00	0.90	0.66	0.69	0.70	0.77	0.87	0.95	0.82	0.82
Legal and collection expense	0.18	0.20	0.23	0.19	0.20	0.17	0.24	0.34	0.21	0.21
Heat, light, water, and power	0.28	0.24	0.18	0.16	0.11	0.16	0.24	0.22	0.15	0.19
Repairs and depreciation on buildings, fixtures, etc.	0.38	0.45	0.26	0.40	0.35	0.42	0.37	0.37	0.37	0.38
Boxing and packaging, trucking and drayage	1.11	1.22	0.73	0.66	0.73	0.73	0.80	0.56	0.81	0.83
Store and warehouse salaries	2.49	2.02	2.49	2.05	1.72	2.14	2.52	2.55	2.60	2.30
Advertising	0.46	0.34	0.37	0.28	0.32	0.44	0.84	0.60	0.42	0.46
Remuneration and expense of salesmen	5.49	5.65	4.58	4.31	4.51	4.51	4.92	5.62	4.22	4.82
Rent and other real-estate charges	1.79	1.58	0.98	0.68	1.02	0.80	1.00	1.05	0.94	1.08
Insurance; taxes other than real estate, including Federal tax	1.63	1.40	1.84	1.79	1.53	1.58	1.60	1.63	1.95	1.66
Interest on borrowed money	0.50	0.62	0.61	0.41	0.32	0.38	0.41	0.35	0.29	0.42
Loss from bad debts	0.59	0.53	0.56	0.86	0.58	0.61	0.47	0.62	0.63	0.59
Other miscellaneous expenses	0.40	0.35	0.32	0.41	0.21	0.43	0.26	0.43	0.42	0.36
Total expense	21.67	20.59	17.24	16.98	16.66	17.04	18.66	20.18	17.86	18.46
Interest at 6% on capital and surplus	3.00	2.23	2.21	1.79	2.52	2.33	2.08	3.63	2.43	2.43
Percentage of returned merchandise to sales	2.63	2.63	2.33	2.44	2.21	2.03	2.26	2.42	2.19	2.30
No. of turnovers	3.05	4.07	3.36	3.95	3.37	3.74	3.59	2.44	2.99	3.41
Interest paid by customers on overdue accounts	0.19	0.08	0.15	0.32	0.21	0.09	0.12	0.31	0.26	0.18
Revenue from cash discounts	1.39	1.44	1.56	1.56	1.54	1.34	1.53	1.43	1.35	1.44
Cash discounts given customers	1.14	1.16	1.09	1.08	1.25	1.12	1.35	1.21	1.28	1.20
Miscellaneous income	0.29	0.42	0.46	0.95	0.35	0.26	0.28	0.28	0.59	0.40
Net profit after interest, discount, and miscellaneous income	2.53	1.88	3.82	5.48	3.98	4.05	3.07	2.04	5.30	3.65

the retail merchant. In spite of this seemingly high cost, no competitive method has been found which takes the place of the hardware wholesalers in the United States.

TABLE 12.—SUMMARY OF EXPENSES OF WHOLESALE HARDWARE HOUSES
Showing the office and sales expenses, in terms of per cent of sales, for each item, for the six making the least money and the six most prosperous.

Executives' salary	Office	Warehousing	Selling	Total	Loss	Class
Six making least money						
2.83	4.77	4 35	6.92	23.39	0.25	*D*
3.39	2.89	3.68	4.19	20.91	1 83	*B*
4.70	2.94	4 17	5.85	22 66	2 41	*C*
1.77	3.11	5.15	8.03	21.59	2.40	*A*
1.59	3.14	6.30	6.31	19.48	1 01	*C*
1.87	3.16	2.73	5.85	18.89	0.23	*B*
Six most prosperous						
					Profit	
1.99	2.92	2.67	4.06	14.58	9.01	*B*
0.85	2.82	3.10	4.41	16 29	8.92	*B*
2.33	3.03	3 31	3.10	16.39	8.65	*C*
2.00	2.51	2 75	5.30	16 15	8.11	*A*
1.57	2.59	4.39	4.36	16.94	7.58	*D*
1.61	2.65	3.40	4.58	13.73	8.11	*D*
General average						
2.47	2.83	3.70	5.28	18.46	3 65	

CLASS: *A*, volume of business up to \$500,000; *B*, \$500,000–\$1,000,000; *C*, \$1,000,000–\$3,000,000; *D*, \$3,000,000 or more.

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CHAPTER VIII

Teamwork with Distributors

No One "Owns" the Customer.—In only a few lines of merchandise is there still contention over whose customer the consumer is. Mill brands advertised by the manufacturer cause most of the dissatisfaction, and it is in the paper industry that the situation is felt most acutely. The wholesale paper houses for many years handled all the paper that went to print shops. All the brands were distributors' brands and were owned by the wholesalers. Then many of the paper mills began to put their watermarks on some kinds of paper and to advertise them, first to printers, then to consumers.

The jobbing paper houses resented this on the following grounds:

1. The printers were *their* customers. The jobbers were paper specialists and advised their customers—the printers—as to the best kinds, weights, and finishes of paper to use for various jobs. This was an important service.

2. If special brands were advertised, when the jobber did not carry the specified brand, his customers were forced to go to other sources of supply. The jobbers logically argued that no wholesaler could carry all the brands put out by the different mills and that the "new idea" was disrupting the business.

Perhaps the paper wholesalers had a more legitimate grievance than most other large-scale middlemen, but the tendency of mill brands to increase continues. A notable feature of this controversy is that, in the earliest competition, it was the manufacturers' brands which came in to compete with wholesalers' brands. Meanwhile, in both food and drug houses, the whole-

salers started pushing their own brands in competition with the manufacturers' brands which they were distributing. The third stage is that the large retailers, and especially the chains, are featuring their own brands, which compete with both the manufacturers' and the wholesalers' brands.

At least in theory there is no reason why a manufacturer should maintain a sales organization or do any selling except to the distributors who voluntarily come to him. There was a time in this country when that was true to a great extent. Importers and manufacturers of such staples as sugar, baking soda, overshoes, and cotton fabrics could turn their output over to established distributors, who were merchants in a large way. Few merchandise men could run a factory, and very few fabricators have any aptitude for selling. But with a flood of new inventions, the wholesalers surrendered their opportunities. They did not want to assume the responsibility of going out to create a market for such an item as baking powder, proprietary medicines, and a large number of kitchen utensils which housewives had to be taught to use.

When the wholesalers refused to distribute such worthy merchandise, the manufacturers sought other means. Some sold "patent rights" to special agents limited to designated territories, and they created a market by teaching the use of the new product. Others, especially the compounders of medicines and remedies, went direct to the ultimate consumers with advertising and so created their own markets. As a matter of history, the proprietary medicines were among the first advertisers to build up a market by advertising.

The amount and kinds of cooperative sales promotion that may be profitably undertaken by a manufacturer and his distributors can be considered most advantageously if the different classifications are clearly in mind. In the following paragraphs a brief review is presented in which the characteristics of the different classes are shown, with emphasis on the way selling methods are modified in compliance with those characteristics which differentiate the various classes.

Four Classes of Goods.—This is not the place to go into the relative merits of mill brands versus distributors' brands. Rather the problem here is to consider working arrangements between manufacturers and distributors so combined that their

united efforts will be most effective. This will be made easier by a review of the classification of goods and of the way each is distributed. There are four classes of merchandise when goods are considered from the sales angle:

1. Convenience goods. Newspapers, magazines, cigarettes, chewing gum, and in general all those items for which a consumer will accept a substitute rather than leave the store and look elsewhere for his favorite brand.

2. Shopping goods. Conversely, these are the items of merchandise for which a buyer will go to some considerable inconvenience to get his choice or for which he wants to make comparisons before purchasing.

3. Industrial goods. These are used primarily in producing consumers' goods, in construction, and in transportation. They are raw materials, fabrication machinery, transportation equipment, and factory supplies.

4. Technical goods. There are a large number of items in this class. General consumers do not buy technical goods on their own judgment, but on the advice and direction of professional men and specialists. Medicines prescribed by physicians, parts of automobile engines, furnishings dictated by interior decorators, and building materials requisitioned by architects are of this class. Where a technician is the consumer, as in supplies for a dentist, then of course the consumer makes the selection for himself.

It will be noted that no mention is made of services, real estate, or securities, which are all included in a comprehensive classification of things bought and sold.[1] For the most part they fall under shopping goods, although real estate has many characteristics which would include it under industrial goods. This classification is for the purpose of considering methods of selling, and all the items mentioned would unquestionably come under shopping goods from the buyer's attitude.

Convenience Goods.—There are such a large number and variety of convenience goods that any consideration given them as part of a general text must be sketchy. The authors will choose a few typical products for discussion, hoping that they will be illustrative of the principal items that fall in this class.

[1] Hugh E. Agnew, Robert B. Jenkins, and James C. Drury, "Outlines of Marketing," McGraw-Hill Book Company, Inc.

Nails, for example, are seldom sold under brands. The market could not be stimulated by advertising. No one would put up a barn or fence sooner than planned because nails were cheap; neither would one defer building because the price was temporarily high. One manufacturer's product is about the same as every other's. So selling nails is primarily a matter of price to distributors, including terms and transportation costs. There are literally thousands of similar articles. The market is inelastic, the maker unidentified, and convenience of supply is the most important influence in selling.

To have a sufficient number of wholesalers who will do the warehousing and who are so closely in touch with the retail hardware trade that they stock in the sizes, quantities, and form wanted is the nail manufacturer's chief marketing concern. Like all manufacturers, he very definitely wants a retail price that is satisfactory to the consumer. For many years such staples as sugar, cotton sheetings, rubber overshoes, and nails were sold by retailers without profit. They were the original loss leaders. Qualities were always the same, so far as the consumers could see, so the store's prices were judged by these basic items. While a low price will not stimulate demand for products like nails, a high price will usually prevent sales when a consumer is actively in the market; that is, it will send a customer to another store, which may mean a different make.

There are a large number of convenience goods for which the market is elastic and which are identified, or branded. With few exceptions the two are found together branding and at least limited advertising. Where quality is practically the same, as in granulated sugar, there would not seem to be much gained by placing a brand on an item, but the trend is steadily toward identifying packages with at least some advertising. (Quality here is used in its broadest sense, including attractiveness of package, if any, and sanitary handling.)

Convenience Goods Identified.—The line between convenience and shopping goods when both are branded is not sharp. If a customer refuses to take another brand of cigarette, leaves the store, and walks two blocks in the rain to get his favorite brand, for him cigarettes are in the shopping class. The authors believe this to be an exception. If all the different makes of cigarettes were not identified except by an initial letter, it is

difficult to believe that there would be a very general discrimination. There is at least a strong presumption that a preference in cigarettes is largely built up by advertising and founded upon differences so minute as to be difficult to detect. Probably the same is true to a great extent of many items like soap, gasoline, chewing gum, tea, and coffee—to mention just a few. However, if that preference can be built up and maintained at a small cost it is good business to do so.

Adding a mark for identification changes the operator's sales problems materially. He is no longer selling just an item of merchandise, but merchandise plus the prestige of the manufacturer and an implied promise by him to see to it that each item is satisfactory to the final buyer. With nails, it may be perfectly satisfactory to turn an exclusive territory over to a wholesaler. Volume of sales is the one criterion of success. Retail sales may not be large, but if enough contractors and industrial users are supplied to compensate, the result may be regarded as satisfactory.

With a branded consumer article, particularly if it is advertised, the fabricator is interested in building good will. This cannot be accomplished without extensive retail sales. In this case no exclusive grants should be given wholesalers for specified districts unless they can ensure sales to practically all stores which would be logical outlets in the territory covered by the advertising. While large sales to hotels or other commercial institutions might provide a satisfactory volume, if the product was used up without having the identification carry through to the actual consumer, little good will would result, hence there would be inadequate returns from the consumer advertising.

Distributors for Branded Convenience Goods.—Seldom will the manufacturer of convenience goods find it profitable to sell direct to retailers; the cost is too great. As will be considered later, highly perishable goods, like bakery products and meats, need to move rapidly, so all unnecessary transactions and handling between producer and consumer are avoided. But usually convenience goods go from their source direct to wholesalers and chain and department stores. In order to secure the widest possible distribution, no outlets are barred. By that means the greatest results from the advertising can be secured. As prices will be different to independent stores from those given the large-

scale distributors, retail prices will probably vary. This may alienate some of the independent retailers, but the arduous task of maintaining prices is the only way to prevent it. Price maintenance may also be so displeasing to the large stores that they will discourage the sale of a product.

Point-of-sale advertising, such as window displays, direct-mail advertising, store signs, counter displays, and package inserts may be provided. These are usually more attractive to stores which do a limited amount of advertising for themselves than for the large retailers who maintain advertising departments. Standard Brands, Inc., have found such a service popular with the small foodstores. It helps to compensate for the higher price that they pay for goods. This is true in proportion as the dealer-aids advertise the store, not merely a definite product which may bring the dealer a limited profit. This is all illustrated by a package insert for coffee which said, in effect,

> Look over our shelves for breakfast suggestions; cereals to serve either hot or cold, excellent breads for toast—which might be different on different days—jams, jellies, and honey to serve with toast. Then make sure of the coffee, your breakfast will be judged by the coffee more than anything else. Schilling's is excellent.

The great trouble with advertising sent to the store is that so much of it is never used. Even when it is requested, it is frequently neglected and sometimes not used at all. The better advertising it is and the more attractive physically, the better the chance of its being displayed as intended. If the merchant has some small part in it, like having his imprint included, or if he is willing to pay transportation charges, there is greater certainty that he will avoid delay in placing it where it will do the most good.

Unless the manufacturer has many items, or his products bulk large in the wholesaler's business, not much selling effort will be forthcoming from the latter's salesmen. However, this should be expected. Convenience goods do not require much sales persuasion; if they did, they probably would not be in that classification. And goods which sell with little effort on the part of clerks usually get little from the wholesaler's representative.

Cooperative Advertising by Competitors.—Often the amount of education necessary to secure a wide sale for a convenience

item is so great that no one advertiser can profitably undertake such a campaign, while, if a concerted effort is made by the industry, the expense is divided, the campaign is made more effective, and everyone profits. The cooperative coffee campaign of a few years ago was an example. It was commonly believed until recently that coffee was harmful for a large part of the population, if not for all. To combat that prejudice was too expensive an undertaking for any one firm. The growers and importers joined in an educational campaign to overcome the prejudice against coffee. The Massachusetts Institute of Technology was employed to make an investigation of the physiological effects of drinking coffee. Two years were required for a thorough investigation, which showed the popular apprehension to be almost wholly without foundation. To acquaint the public with the result, these investigations required an extensive advertising campaign. It was futile to depend upon publicity, and to wait for the public to "discover the truth" would take too long. Advertising accomplished the desired effect in a short time, and in the first two years the sale of coffee increased 399,000,000 pounds.[1]

Similar stories could be told for oranges, for prunes, for raisins, for cement, for tea, for greeting cards, for cut flowers, and for a number of other products.

The cooperative campaign, to be successful, must reach the sympathies and interests and appeal to the understanding of the public to which it is addressed. The end sought must be sufficiently important both to the industry and to those the industry serves that promoters can afford to appropriate sufficient funds for its accomplishment. Ample time must be allowed to make results possible. Habits cannot be changed overnight, nor can 125,000,000 people be convinced of the merits of a proposition in a few weeks.

The idea of a cooperative campaign is that it lays the basis, or prepares the ground, for individual sales efforts. The paint campaign—"Save the surface and you save all"—convinced readers that it was more expensive to allow wood and metal surfaces to deteriorate because unprotected than to buy paint. In other words, they were advised that they "could not afford not to

[1] Hugh E Agnew, "Cooperative Advertising by Competitors," Harper & Brothers.

paint." Then each paint manufacturer could follow on and urge the advantages of his particular brands of paint and varnish. So with coffee. After the joint campaign had broken down the prejudice against coffee, each roaster could concentrate his sales efforts on selling his coffee. He did not need to spend any money in the defense of coffee as a drink.

Failure of cooperative campaigns is attributed to causes similar to those which have accounted for the failure of individual campaigns. When an industry has chosen a slogan and, with little or no thought for the buyer's welfare, has publicized that slogan, failure has usually followed. "Eat more bread" by the association of flour millers; "Walk more" by the sole leather manufacturers; "Read more books" by the publishers' association all came to grief. These advertisers had copied the methods, at least in part, of the "Save the surface" campaign and the "Say it with flowers" success. In the first three the reader could see no benefit to himself by following the advertising. In the last two, the reader could easily see that it would be to his advantage to comply. As a condolence, or harbinger of sympathy, the one who could not think of a suitable message to write was helped out of his predicament by saying it with flowers.

While cooperative advertising by competitors has been discussed along with convenience goods, it should be understood that it has been found quite as effective with shopping goods as with those classed as convenience. Davenports, face brick, oil burners, decorative fences, and automobile tires are some of them. In a sense, most consumer advertising done by manufacturers is to help retailers sell their products, and properly comes under the topic Teamwork with Distributors.

Economies of Manufacturers' Advertising.—The manufacturer is in a position to advertise more economically than his distributors except in a few rare cases. To secure the best teamwork, each should do the part which he can do best. In keeping the advertising under his own supervision, the manufacturer is complying with that principle, and he should go to all necessary pains to explain his position to distributors. Often the retailer feels that the advertiser who supplies him merchandise has arranged his advertising campaign with little or no consideration of how it affects his particular store and the stores of others similarly situated. The real idea of a well-planned campaign is

for the very purpose of assisting the retail trade. If retailers fail to see this and to appreciate the advertiser's plan, they will make little effort to cooperate and the influence of the campaign will be materially weakened.

While retailers sometimes advertise their own stores with skill and economy, they seldom have much conception of national advertising and are at a loss to see how it is possible for a manufacturer to save money by using space which costs up to $15,000 for a single page. Explanations are made difficult because it is so hard to get cost figures on advertising as related to sales. Seldom does any firm make sales costs public, and, on the rare occasions when the figures are available, they are invariably on different bases. One manufacturer includes sampling with his advertising, another does not. One charges window displays to selling and another to advertising and so on through a list of items which; taken together, make a wide difference in results.

Following are a few authentic figures which, contrasted with the cost of advertising of one of the leading stores of the country, are convincing evidence that national campaigns can be conducted at less expense per dollar of sales than retail advertising.

The Holeproof Hosiery Company built up its business primarily by magazine advertising, appropriating 10 per cent of sales to cover costs. The Campbell Soup Company primarily by magazines and car cards have held advertising and sales costs to 5 per cent of sales. Packer's Tar soap built and maintained its business for many years without salesmen, and on an appropriation of 10 per cent of sales. More than 90 per cent of this amount went into the popular magazines.

As compared with these, "Advertising Media"[1] gives a tabulation of advertising costs for one of the largest department stores, covering nine of the principal departments in the store. In no case were sales made for as little as 9 per cent of the department advertising costs. The range was from 37.6 to 9.1 per cent in the eight newspapers used. This was representative of the store's advertising, which costs more than a million dollars a year. The advertising costs for this store are slightly less than 5 per cent of total sales. The sale of unadvertised merchandise was what brought the percentage down. As much of retail adver-

[1] By Hugh E. Agnew and Warren B. Dygert, McGraw-Hill Book Company, Inc.

tising is for the purpose of attracting buyers to the store to shop, it is sometimes charged against total sales rather than separate departments.

The authors have repeatedly attempted to get the relationship between the cost of a store's advertising and the sale of goods actually advertised. One important merchant said: "I don't know, I've never had the heart to investigate." It is well established that even the largest retailers are not equipped to go out and create a market such as had to be done for mechanical refrigerators, for vacuum cleaners, for radios, or even for a new form of laundry soap. After manufacturers have created such markets, the stores are quick to take advantage of the new sales possibilities.

The reason why advertising can be done more economically on a national scale is not obscure, but promoters of local media have so skillfully confused the issue that few have taken the trouble to analyze it. Popular magazines have an advertising rate of $3 a page or less for each 1,000 families who buy copies. A large number are passed to other families, so that the rate is 3 cents for somewhere between 10 and 20 families. With such an extensive distribution of the advertising message, the cost of preparation need not be limited. If $1,000 to $1,500 is invested in art work and color plates, that represents only an additional 1 cent or 1½ cents for the 10 to 20 families just mentioned. For a retailer to get out a single piece of advertising at such an initial cost would be impractical.

With radio advertising, the same condition prevails. First-class talent for a good program costs far more than the toll for any single station. Like paying $1,000 to $1,500 for the mechanical preparation of an advertisement to be published, it is out of proportion for a small circulation, but that amount expended for a program on a national hookup brings the unit cost to a reasonable sum.

Again, in the use of posters or painted bulletins, the cost of space rental is very reasonable, from 16 to 25 cents per 1,000 circulation. But again, the design and the lithographic plates are so expensive that, unless the display is to be extensive, the unit costs are too great. For example, to pay $800 to $2,000 for a poster design and reproduction plates is a reasonable expenditure for 5,000 to 10,000 posters, which will make a strong campaign

for the whole country; but only in cities of a million or more would 100 outdoor displays be necessary for coverage. So it often happens that the limited advertiser skimps on his design, which cheapens his campaign and weakens it.

Distributors for Shopping Goods.—Shopping goods are of many varieties and classifications. They vary all the way from automobiles and oil burners to toilet soap and hosiery. Division lines are not sharply drawn. What one woman will shop for assiduously, another will accept on the recommendation of a clerk or as a matter of convenience.

These different attitudes are important from the manufacturer's angle. He wants the best possible distributors and is willing to cooperate with them to the limit to make a market for his product. To him the problem is: what sales and advertising policies will enable retailers to sell the most of our products at a profit?

The campaign to the small consumer, for reasons just reviewed, will be in the hands of the manufacturer. If distribution is restricted to regions or even to some local districts, different arrangements may be more satisfactory. Other factors are still more important, particularly the selection of distributors.

If retailers can get a large part of their stock from one manufacturer, as in the case of men's suits and overcoats and paints and varnishes, it is evidently advantageous to sell them direct. Some of the large food manufacturers have so many branded items which are sold in all grocery stores that they sell direct. Procter & Gamble sell direct to the urban centers but turn their distribution over to wholesalers in rural districts.

Some style goods fall in this class and are sold direct to stores. Buyers of women's wear regularly go to Chicago, Cleveland, or New York to make their selections, then ship them by express so that they can surely be placed on display before the style changes.

Department and chain stores buy the most of their stocks direct from manufacturers and usually beat down the prices, in some cases below those given wholesalers. It is not uncommon for one of these to take the complete output of a small factory. In such cases, the goods are sold under the store label, whether in the shopping or convenience classification.

Many goods, like a large part of musical instruments and radios, are sold direct. Generally, where the unit price is high,

the merchandise is not sold through wholesalers. American-made watches are an exception, being sold through wholesalers, whereas imported watches are mostly sold direct.

Vertical Cooperative Advertising.—Where a manufacturer has a sales-promotion effort, part of the cost of which is borne by his distributors, it is called "vertical cooperative advertising," or "sales promotion." This may take many different forms. In the automotive field the manufacturer prepares a considerable amount of advertising which he expects distributors to place and pay for. This is in addition to the national campaign and supplements it. It may be newspaper advertising which carries the dealer's name. It may be the circulation of form letters which are prepared by the manufacturer and sent to a list of prospects supplied by the dealer and mailed at his expense. The distinguishing feature of this is that it is practically compulsory for the dealer, who bears the expense but who has little or nothing to say about the form and content of the advertising.

Different Methods in Vertical Cooperative Advertising.—There are many ways in which cooperation can be carried on profitably between a manufacturer and his distributors. The type of goods, the number of middlemen, and custom are the general factors which determine the kind of cooperative sales effort. In the following seven classes it has been attempted to give the more important methods:

1. Cooperate through publication advertising.
2. Supply store fixtures and equipment which facilitate the sale of the product.
3. Provide ad.ertising for display in and about the store.
4. Provide advertising for wholesalers and retailers to distribute.
5. Develop dealers; that is, help them to be better merchants so they can sell more of your goods.
6. Provide outdoor and car-card advertising.
7. Use miscellaneous means, such as referring inquiries to dealers.

May we repeat, all consumer advertising, even the advertising done cooperatively with competitors, has for its purpose to help distributors make sales. For that matter, making a good article and placing it in an attractive package is of valuable assistance to the store in selling it, but that should not be confused with the deliberate plan to help a store sell the product, which would not be done if the product were to be sold some other way than through a store.

Cooperative Advertising in Newspapers.—On the surface, it looks like a very simple matter for an advertising manufacturer to prepare copy, select newspapers, and divide the costs with dealers; but it is far from simple. One of the things that complicate the situation is the scale of rates charged by nearly all newspapers

The trouble starts with the newspaper rates, which are higher for national than for local advertising. The overcharge runs from 10 to 100 per cent or more. The principal reason given for this differential is that solicitation for national advertising costs more than for local. It may not be generally understood that practically all newspapers are under contract with advertising representatives, who have offices in the cities where most national advertising originates. These representatives get 15 per cent on the gross amount of advertising that goes out from the districts they represent to newspapers on their lists. They may never see the advertising until after it is published, but they collect their service commission of 15 per cent according to contract. Add this to the 15 per cent charged by the advertising agent for his service and 30 cents is gone out of each dollar before anything is applied to space cost.

If an advertising manufacturer wants to use newspapers cooperatively with his distributors and places copy through his advertising agent, the distributors complain that rates are high If an attempt is made to have the dealers buy the space, the manufacturer never knows just what his space is going to cost until after the billing is in. Besides, the local merchant is not usually a very good media man. He does not appreciate the benefit of special positions, nor is he an exacting buyer, especially when a "rich" firm a long way away is paying such a large part of the cost.

Some advertisers have had their salesmen go to the local newspaper along with a representative from the store to arrange the advertising schedule. This puts the newspaper on notice that the manufacturer is interested in the campaign, and so it is classed as national advertising and the rate fixed accordingly.

To submit copy to stores in advance and have them get rates and schedules is possible, but it involves a terrific amount of correspondence and may delay the campaign. There are approximately 2,500 newspapers—morning, afternoon, and Sunday—in

the United States. No advertiser would use more than a small percentage of them; so, much dissatisfaction develops among his distributors. The aggressive dealer in a city of 5,000 feels aggrieved if his local newspaper is not included in the list, especially when he sees an advertisement for his competitor in a neighboring city of 30,000. Again, when there are two or more stores in a district which handle a manufacturer's products, how is the advertising cost to be appropriated among them, since they may vary in size and in the amount of goods sold? Sometimes to apportion costs according to the dealers' purchases is satisfactory. But there are many exceptions to this.

Foreign and Local Newspaper Rates.—This rate differential works a hardship on the national advertiser in this way, whether he is doing cooperative advertising or not. Suppose General Foods want to advertise Maxwell House coffee in newspapers. Placing copy in the regular way through their advertising agent, they may have to pay twice as much for space as the A & P store pays for similar space for Bokar coffee. The copy and display may also be prepared by an advertising agent but sent to some designated store in a city to arrange for the advertising. The cost of this advertising can be allocated to the different stores in proportion to sales or according to the size of the inventories.

About the most feasible plan, where there is no exclusive-agency arrangement, is for the advertiser to place his copy in the accustomed way, include the names and addresses of all the stores to participate. and then divide their share of the costs according to sales.

In order to give the advertising a local flavor, the advertiser sometimes solicits the assistance of the local newspaper. One furnace company instructed its dealers to notify their newspaper every time a new furnace was installed. The newspaper took a photograph of the building, which was sent to the advertiser. He in turn prepared the copy, and his distributors gladly shared the expense of the advertising. Some newspapers made a nominal charge for the photograph; some did not even make a charge.

Where a piece of store equipment definitely helps sell a manufacturer's product, it is obviously to his interest to provide something that will be an ornament to the store. Particularly is this

true if the equipment would be expensive for a merchant to provide for himself, but if, when purchased in quantities, it can be had by the manufacturer at a reasonable cost. It will probably be a profitable investment. The equipment used by gas stations is mostly furnished by the oil company whose product is to be sold. This includes pumps, portable tanks, hose, etc., apparatus which is necessary in the conduct of the business. Further, it enables the owner to provide that only his products may be vended with the equipment supplied. There is no doubt that equipment furnished gratis is not given so good care as that owned. Even so, supplying equipment has not yet become a serious burden in the oil industry.

Display equipment is provided in great variety and for many different classes of stores. A handsome showcase loaned to cigar stores by the General Cigar Company was to be placed in the front of the store and used to display brands made by that company. This assured the choicest display space in the store and induced many stores to carry larger stocks so that the case would always be full.

The Eversharp Pencil Company provided dealers with a very attractive display case that looked well on a counter. No charge was made for it, but it was stipulated that at least half of the space should be used to display Eversharp products. The psychological effect was good, for it made it appear to customers that the store sold many more pens and pencils of that brand than of any other.

Sherwin-Williams got out a fine display rack for paint. This was sold to the retailer at cost, which was far less than he could have bought it for anywhere else. These are only a few of many that might be recalled, but they are typical and suggestive.

Providing Advertisements for Store Displays.—This is another of the seven forms of cooperation mentioned above. There are many forms and many conditions which influence this kind of advertising. Where the agent has exclusive sale, as of men's clothing sold under a brand, all the display material supplied will be welcomed—but not always used. In the case of Willard batteries, the signs and most of the other display material is only loaned. The store which sells batteries must offer service as well as merchandise. If this service is not satisfactory to consumers, the factory takes the agency away from that store. To be sure

that it no longer poses as a certified agent, the Willard display signs are also taken. Most contracts for automobile distributers specify that all signs bearing the name of the car must be surrendered along with replacement parts when the sales contract is terminated.

However, it is not with exclusive dealers that the scramble for display space becomes acute. It is aggressive in the drug field, where each store may carry 4,000 to 5,000 different items, only a very few of which may be given any display space. It is here that the manufacturer should consider the dealer's interests. The display of unprofitable merchandise or of advertising material for unprofitable merchandise should not be considered even when the advertiser is willing to pay liberally for the display. The druggist is in the merchandising business. His profits come from the sale of profitable merchandise, not from conducting an advertising-display business. For example, the sale of court plaster is such a small item and the demand is so nearly inelastic that the store could not conceivably use valuable display space for it with profit. Even if the manufacturer were willing to pay liberally for any space assigned his products, it would still be inadvisable A chain of cigar stores attempted a few years ago to go into the advertising business. For a dollar a month, each store would accept and display an exhibit up to the size of a streetcar card, provided the merchandise was carried in stock. The advertising revenue was the only profit the chain made that year. The sale of cigarettes and some other fast-selling but unprofitable merchandise was not affected, but profitable items, which suffered because of the miscellaneous displays, failed to show the usual profit.

The Vexing Window Displays.—The absurdity of a druggist renting a display window to show shoes or neckwear is apparent. It is not materially different if he rents the same window for the display of crutches, packaged calomel, or asafedita, when the display will not add a dime to either sale or profit. In the case of products having an elastic market, particularly those of considerable volume of sale, it may be good business to accept the manufacturer's offer of compensation for unusual displays. The size and length of time should be strictly limited. With another class of products, those offering meager profit but bought frequently by a large number of people, like razor blades, toilet

soap, and even cigarettes, keen advertisers sometimes make window displays to get people into the store.

The grocer has quite a different problem with his display windows. He handles less than half as many products as the druggist, and his profits come primarily out of a few groups, such as butter and oleomargarine, canned goods, coffee, tea, and cocoa. A manufacturer in one of these fields could well afford to arrange an elaborate window display and expect the stores through which he distributes to cooperate enthusiastically—even on occasion to pay something for the display. This is a striking contrast to the condition in the drug field, where remuneration might reasonably be given for the use of a display window. In one case, the display might stimulate enough business so that routine sales would return adequate profits. In the other, the limited sale could scarcely be expected to repay the cost of maintaining the display. Of some grocery products, like saleratus, the sale is so small and inelastic and the profit so meager that the store could get no profit from a display in a valuable window, and the small amount that a manufacturer might be willing to pay for the use of a window would not compensate for the loss of a more profitable display.

What is the best way to secure window display space? is a frequent question. There are a number of partial answers, but no one great specific which takes care of every case, so far as the authors have been able to learn. Borden salesmen are required to arrange for and *place* the point-of-sale display. The manufacturer who supplies his salesmen with automobiles has found a happy solution, provided that the said salesmen are thoroughly convinced that the displays will increase business. They must be sold on the idea and in turn be able to convince the retailer that it is worth while.

In urban and other districts where the density of population makes many stores necessary, there are usually window-display firms available. They secure the space, install the display, and take it out at the end of the period agreed upon. If the window display is at all elaborate, requiring the use of goods as well as display material like crepe paper and backgrounds, this is about the only practical method.

Some advertisers employ window-display men to devote their whole time going from store to store. This produces some excel-

lent windows, but the cost tends to be excessive. Someone has to arrange for the use of the window in advance; someone has to take the display out. If only the store's goods have been used, with inexpensive material that can be discarded, then the store can remove the display. Where there is something of an investment in display material, the window trimmer may return and remove his property, perhaps carrying it to another store for installation. This is not usually agreeable to the second store, particularly if it is a competitor of the first. Where the stores are in different cities it may work. If, however, an attempt is made to tie in window displays with consumer advertising in publications and radio, the displays should all go in at the same, or approximately the same, time, which is another advantage in employing someone who can give an organized display service. Only in handling the simplest displays can the ordinary salesman be trusted. Some advertisers attempt to give all their salesmen a course in window trimming. It is about as successful as attempting to give them a course in art. A few succeed, but most fail, if they are expected to originate a display or even to modify a display to fit an unusual window.

The Store Helps to Promote Sales.—The matter of circularizing consumers in cooperation with retailers is discussed at some lenght in a later paragraph. This is Item 4 of the general plan given on page 155. Under this head, some kinds of sampling might be discussed but, as a separate chapter is given to that subject, it will be passed here with only incidental mention.

The basic idea of communicating sales messages to consumers by and through the retailers who supply them is not merely to secure an inexpensive distribution of advertising material, although that may result. What seems to the authors to be of much greater importance is that this method of communication can be made so much more personal. For example, as I write this there is on my desk a circular letter ostensibly from the Lawrence Sales & Service Company, the local agents for the Oldsmobile. Indeed, it has a signature at the bottom which only an advertising man would know was made from a zinc etching. It begins "Dear Mr." with my name. The size of the stationery is the same as is usual in social correspondence. Pages 2 and 3 are lithographed, with my name "put in" in red with a small brush.

The letter is very nicely printed. In fact, it is of a quality not obtainable in the little city where the sender has his business. I know that it was prepared and printed by the advertising department of the Oldsmobile Company or by its advertising agent. For all that, it has a personal quality and an individual appeal which no publication and no radio advertising could possibly carry. By most of the 1,500 or 2,000 people who received it, it must have been accepted as a personal communication.

It is not merely the mechanical form, however, that makes it seem so intimate. The message concerns the care and upkeep of my ("your") automobile. These are of course about the same as that demanded by the 25,000,000 other automobiles on the public highways. Yet because the message is written in a personal way and presented in a form so in keeping with the nature of the message, I accept it as the advertiser hoped I would. The authors believe this to be one of the most important phase of direct-mail advertising

There are many little utilities which are given to consumers to foster good will. An example was a coffee measure which was a great convenience to housewives. It provided a means to get an accurate proportion of coffee and hot water. It was the coffee packer's hope that it would be used exclusively for his product and that he would get all the resulting good will. The little measures carried the manufacturer's name, under which his coffee was packed. They cost about $8 a thousand. Instead of sending these direct to dealers for distribution—he sold direct—he asked the dealer to display a sample, then send in the names of customers who requested them. When the request was received, a form letter was personally typed, explaining how much gratification the firm got in sending the measure with its compliments, and how they hoped that it would help the recipient to enjoy *X* coffee. The expense, including the letter and the wrapping and postage on the measure was about 15 cents each—to give away an item that cost less than 1 cent. The formality of the letter might have been appropriate for presenting a present of substantial value, but with the cent measure it was ridiculous. The retailers were antagonized that they were given so little recognition. So by trying to monopolize the good will, the manufacturer

obtained no increased business but hostility on the part of dealers and mild contempt from consumers.

Dealer Education.—The fifth and last of the cooperative methods is the difficult task of educating dealers. It has taken many forms, varying from instruction in writing collection letters to expounding business principles and the economics of exchange. All these attempts have been of good intent, yet most of them have been ineffective. Burroughs Adding Machine Company and the National Cash Register have both done some excellent work along the line of encouraging better records and, particularly, more revealing accounting pertaining to costs. As might be expected, much of this instruction has led up to the use of the adding machine and the cash register, but by no means has this been true of all the educational effort made by these firms.

The National Cash Register Company has gone futher in this type of instruction for distributors, particularly for retailers, than any other manufacturer in the country. The work is regarded as so important that a subsidiary, the Merchants Service Bureau, has been organized to handle it.

If there is a wide difference in quality and price for articles of similar appearance, it behooves the manufacturer not only to point out the difference in quality but to make plain just what that difference means to the consumer. Two suits of clothes may both be "all wool," but if one is of shoddy and the other from virgin fleece, the difference in value is so great as to be startling. The quality of lemon extract depends largely on the quality of alcohol used in the manufacture. The difference in automobiles is supposed to be demonstrable. The difference between teas and coffees is to an extent a matter of taste, as it is with apples. Even when a man has been in the shoe business for years he finds it difficult to explain to a customer why one shoe sells at $6.60 while a similar-looking shoe sells for $10.50. From these few simple illustrations, it is easy to see that educating retailers and retailers' clerks to the point where they can judge some merchandise is a very large undertaking. A few years ago the associated full-fashioned hosiery manufacturers put on a campaign to explain to the public the difference between full-fashioned hosiery and the "shaped" hosiery, which is made from tubing and stitched to give it form. The very considerable sum

of $150,000 was spent in the campaign, and it failed so utterly that not even the clerks in stores were really convinced of the difference.

Help for Salespeople in Stores.—For years the Cravenette Company of the United States tried to get over to the public and more emphatically to clerks in retail stores just what the cravenette process was, but with little success. Then a happy idea occurred to the advertising manager. He employed Montague Glass to write a humorous story with his famous characters Abe and Morris as partners in a retail clothing store. One partner explains to the other that cravenetting is not a fabric, that it is processing a fabric to make it waterproof. The story was printed in a tiny booklet and sent out to a large number of clothing stores for distribution to clerks and to favored customers. Other copies were offered on request. Almost immediately the campaign was a success. Although the copy cost $2 a word, as reported, the expense was moderate.

Store demonstrations and sampling are both helpful in making the store personnel appreciate the difference in quality, particularly as it affects the consumer. To attempt to get salespeople in stores to know goods as the manufacturer knows them is not possible. In the larger stores buyers are specialists and really know their merchandise. If these buyers are also salesmen, they know what to tell the public. Is it not apparent that this goes to the heart of the whole merchandising system? The buyer selects, not necessarily the best goods, nor the ones that she would prefer for herself, but the ones that the public will prefer at the time and place. Good advertising is founded upon sensing the public's preferences and then making the offer in a way to appeal to those preferences. Dealer education, with a vast variety of merchandise, has much the same purpose. The salesman may explain to the buyer, but the salesman's employer should assist the buyer also in explaining the products to clerks in a way that they can carry through to customers.

Fortunate is the firm which has a product that lends itself to demonstration. A little hot water on pepper brings out its flavor and readily indicates the quality or the comparative qualities where more than one is under consideration. A drop of vanilla on a half spoonful of granulated sugar enables one to judge the flavor or comparative flavors. Such simple tests are a great help

in making quality merchandise appreciated. Complicated manipulation of apparatus that is difficult to follow may have a place in the sample room, but not in a store, especially where the buyer has to wait on customers while he is trying to follow the demonstration. Asking salesmen to carry a lot of demonstrating devices, which they handle awkwardly, is a sure way to get them discouraged with the plan and to shirk it. On the other hand, a simple, convincing demonstration is a delight to most salesmen.

A Dealer Lesson.—The following is a condensed presentation which the Drackett Products Company of Cincinnati, Ohio, prepared to give dealers a lesson in the advantages of reducing stocks to the best sellers. The original undertook much more than that, but it is too voluminous to reproduce here. The firm manufactures two products; Drāno for opening sluggish drains and keeping them open, and Windex, a liquid chemical window cleaner. While the authors do not have data available for verification of the figures and relationships given, they do believe the principles presented to be sound, the figures to be accurate.

A survey was made in which it was discovered that of every 100 women, 69 have trouble with drains during the year. Of these 69, 37 use Drāno; 6 use Sani-Flush and other toilet-bowl-stain removers; 7 use lye; 3 use kitchen cleansers; 7 use mechanical devices; 7 engage plumbers; and 2 buy competing drain openers.

Grease was the principal trouble maker, as 83 per cent reported, and 56 per cent said the kitchen sink gave the most trouble of all drains. Using the wrong relief agent had given trouble to 40 women in each 100.

"You sell or permit 16 of the 69 drain-opener customers to buy products to open clogged drains which cannot do so," is an accusation made at the dealers. And the reasons why the Sani-Flush, lye, and kitchen-cleanser users (16 of them) get bad results is explained.

To advertise and sell Drāno for clogged drains and Sani-Flush to remove stains will increase sales—stop loss of customers, add to your profits. Drāno sells for a better price and pays a specialty profit.

Plungers, wires, etc., and plumbers take your profit on 14 of every 69 drain-opener customers. Of the families reporting, 67 should use Drāno, leaving the 2 with the competing products.

To provide for the sale of two competing products, the retailer carried an average of 2¼ brands. He satisfied 37 people with Drāno. This means he carried 1¼ products to serve two customers. Each competitive drain opener stocked doubles operating costs. Yet the other drain openers increase sales only 5 per cent (2 over 37). Shelf space, stock, and labor go up nearly 100 per cent. Duplicating brands may not increase sales but is sure to increase expense. Free deals of a product that has only occasional sale do not compensate for the added cost. The remedy is to advertise Drāno aggressively *to keep drain from clogging*. Don't wait until they are actually clogged before reminding customers. This will about treble your business.

TABLE 13 — DRANO YEARLY SALES BY SIZE OF STORE

Size of store	No of customers	No cans if Drāno is sold for stoppage only	No. of cans if Drāno sold for prevention
Small	200	276	828
Medium small	300	414	1 242
Medium	500	690	2,070
Large	1 000	1,380	4 140
Super	5,000	6,900	20,700

The dominance of Drāno in the market greatly facilitated making out a convincing case in its favor. However, Windex has by no means such an established position, so it will be interesting to follow the presentation made for it.

The following list applies to each 100 families and accurately represents their habits in cleaning windows:

24 use water only
18 use ammonia and water
16 use a cleansing or scouring powder or cake.
9 use soap and water
9 use vinegar and water.
3 use kerosene and water.
5 use miscellaneous cleaners.
16 use liquid chemical cleaner.

These 24 who use water alone give no profit. The 18 ammonia, 16 scouring powder or cake, 9 soap, 9 vinegar, and 3 kerosene users, 55 in all, buy a product which represents only a

commodity profit. This is also true of the 5 in the miscellaneous class. None are plus sales with the specialty profit. Only 16 are in the most profitable class of plus sales; that is, 1 family in each 6. Of every 100 families in this class, Windex supplies 69 customers and all others 31. The average of these buys four bottles at 20 cents each and a sprayer for 15 cents annually.

When you start with competitive products you are bidding for the business of three families in ten. Seven already buy Windex (69 of each 100). What happens when you add a low-priced window cleaner? Suppose you are now selling Windex only; say 100 bottles. You add a 10-cent competitor. Suppose the sales go up 30 per cent, or 130 bottles. That will not mean 100 bottles of Windex and 30 bottles of the ten-center. Instead your Windex will fall off to 50 and the ten-center will get 80. So instead of 100 bottles at 20 cents or $20, you will have 50 bottles or $10, plus your 80 bottles at 10 cents or $8. You have sold more bottles but have received less money and less profit. Your number of sales has increased by 30, but that means more sales expense.

This is a summary of a fetching argument to dealers, illustrated with drawings, graphs, and tabulations. It was an argument of the manufacturer for selling his product, but it was also good merchandising policy for all products.

Other Examples of Dealer Tie-ups.—In the men's clothing business the manufacturer furnishes illustrations or mats for his retailers. These are sent without cost if and when requested. The manufacturer's name is usually more prominent than that of the dealer, but the dealer pays the whole of the space cost. Some of the leading manufacturers get out style books. These are handsomely illustrated, part, at least, in color. Occasionally a manufacturer is sufficiently cooperative to place the dealer's name on the front cover in place of the producer's. The dealer supplies a list of names, pays the postage and a part of the cost of the books. This is not resented, for the style book is so well gotten up that the store could not afford anything so elaborate if it were to assume all the expense. It is another example of saving by mass operation.

Some manufacturers solicit the cooperation of their distributors for poster or car-card advertising. A common practice is to send a miniature of the proposed display and invite an order for the

number the store is willing to place. This supplies the retailer a far more artistic and effective display than he could afford to provide for himself, but his share of the cost is large when he pays all the space rental.

Placing the name of a manufacturer or the trade name of his product in the local telephone book and giving the dealer's number is a recent development. The telephone company gives a special rate and makes a contract with the manufacturer. It is usual for the dealer to pay a small monthly charge: Examples can be found in almost every telephone book.

Where sales are direct to dealers it is an easy matter to refer consumer inquiries to the nearest dealer, or, if there is doubt, to the two or three who seem to be nearest. These inquiries, which come primarily from the national advertising, are immensely valuable in building good will, both for the manufacturer and for the dealer who follows it up. One of the weaknesses of distributing goods through wholesalers is that the advertiser does not know the stores where his goods are sold and he cannot refer complaints or inquiries to them. Sometimes this is overcome by offering wholesalers' representatives a premium for a list of the stores he sells. Some wholesalers do not permit this. To send inquiries to the wholesaler with a request that they be forwarded to a retailer is not very successful. For the most part, wholesalers do not feel that they can afford to take the time to do this work for manufacturers. So most careful advertisers who distribute through wholesalers use special care to avoid provoking such consumer inquiries as "Where can I get it?" The expression is common, "If you can't get it from your dealer, send direct to us." However, some advertisers go to the opposite extreme and invite inquiries. Where this is done booklets, folders, and model letters are prepared in advance to cover the great majority of questions. It is an expensive matter to write individual letters in large numbers, but it is a good-will builder. On the contrary, a vast amount of aggressive ill will may be created by failing to give courteous attention to communications received from customers and prospective customers.

Other forms of dealer helps and dealer cooperation will be considered under Sampling.

Merchandising the Advertising.—A firm's advertising is so largely a detailed and itemized account of the services the firm has

to offer that no time or effort should be spared to make customers and prospective customers understand at least the definite objective of the campaign. The only legitimate reason for being in business is to perform some useful service. When there is no profit, a searching examination is recommended to compile all the reasons the firm can offer why it should have received a reward. President Katz of the great Bloomingdale store in New York City once said to a group of students whom he was addressing: "I sometimes wonder why anyone comes to our store to buy things. There is so much of our merchandise that is below the standard we would like to maintain and our prices are so much higher than they should be for what we have to offer, that I am surprised that we sell so much." Yet several hundred thousand families in this store's shopping area feel that they get more for their money there than at other stores, or they would spend their money elsewhere. The manufacturers of other businesses might well follow Mr. Katz's critical self-examination.

When a firm has deftly put into its advertising what it has to offer as a justification for its existence, then it should see to it that its executives, its salesmen, and its stockholders all get the story of the advertisement. This does not mean that they should know the name of the artist, the method of reproducing his art, or the families of type used for display. Those are technicalities, to be decided by the technician, but the story they help to tell is the story of the business. The purpose of advertising is to reduce sales resistance. What that resistance is and how the advertising helps to flatten it is the inside story of the campaign. The nature of the circumstances may be such that it is inexpedient to explain in detail to customers, but that limitation should not apply to those selling for the firm.

To have a salesman leaf through a portfolio with from 20 to 50 pages, asking some little grocer what he thinks of it, is not the way to get it understood. We believe that, unless there is an opportunity for the dealer to tie in with the supplier's advertising, there is not much to be gained by showing it. Perhaps a more effective way would be to send the dealer a reprint of the advertising and point out how he may use it to bring him business. If retail stores are too numerous to reach direct, the same purpose may be accomplished by using a page in the trade magazines, giving notice of the date, a word of description of the consumer

advertisements, and some suggestions as to how they can help the retailer. This will keep your own salesmen from forgetting if you sell direct. If you sell to wholesalers, it will help their salesmen to make a better use of your sales-promotion efforts than they otherwise would.

Even if you are selling industrial products, it may be both advantageous and profitable to explain your advertising to your customers. The purchasing agent may need just such information to justify his purchase. If it helped to convince him, it probably will convince his superior. Even the "busy" architect may take time to investigate your advertising if he can see that in meeting inquiries from his clients, it will give him the opportunity to assume the air, "Oh yes, I know all about that."

If your customer is a contractor and builder, it is a good thing for him to know why your product is a profitable investment for the owner as well as for himself. In other words, he has to sell his materials and workmanship to everyone for whom he builds; the supplier of materials can materially assist by his advertising.

Advertising Allowances.—Advertising allowances are a form of vertical cooperative advertising, but, because of their importance and the danger of conflicting with the Robinson-Patman Act, they deserve a more detailed discussion than has been given other phases of the subject.

The original idea of an advertising allowance was that the retailer would do some special advertising for the product and that the manufacturer would share in the expense of the promotional activities. In men's wear, it was common practice for the one who owned the trademark to permit the store to deduct up to 5 per cent of the amount of his invoice for advertising in local media. Copies of the local advertisement together with an itemized statement of its cost were submitted when settlement was made. Many of the contracts for this allowance provided that "in no case may the amount charged to the manufacturer be more than 50 per cent of the cost of the advertising." This was generally objectionable from the manufacturer's standpoint. There was no unity or continuity to his advertising; other goods than his were frequently mentioned in the copy, and then the question of the division of space provided plenty of opportunities for disagreements. Stores frequently overspent their quota, which made more trouble.

Because of the poor copy and poorer typography supplied by local workmen, this practice was soon modified. The manufacturer supplied a series of advertisements in mat or stereotype form and permitted the retailer to make his selection from among them. Occasionally one or more of the series was specified to be used in any selection. This corrected most of the abuses, but deprived the copy of all local touches, which are so valuable when skillfully used.

The more important stores desired a larger part in the advertising program. They were not satisfied with the lower prices which their quantity buying provided. Pointing to the large amount of merchandise they handled, they insisted that they could display and push the goods in a way that would be immensely valuable to the manufacturer.

The worse response to this was for the salesman to give the buyer a sum of money outright "to be used in advertising." This was just plain commercial bribery and is contrary both to the ruling of the FTC and to the provisions of the Robinson-Patman Act.

Some of the buyers were loyal enough to turn over to the firm the money given them by the salesmen. This was only a stimulant to greed, and still larger sums were demanded. Free goods were solicited in place of cash by many retailers. One grocery chain demanded a free carload of cheese to distribute as samples, if a large order was placed. This was finally granted. A few weeks later, in a check-up, it was found that this whole carload of free cheese had been put on the shelves and sold. When a remonstrance was made to the buyer, he brazenly maintained that he had not offered to distribute this large amount of goods without cost. Anyway, a "paid" sample was as effective as one given away, he argued. And this after a low quantity price had been given the chain!

To turn over one's good cash to every little store to spend for advertising is to admit that the little retailer can do a better job of advertising than the one who made the money. That might be so. But if it were so, the firm which has the money would do better to keep it. A dollar spent for advertising is poorly spent if it does not bring back more than a dollar in profits. While it is easily conceivable that a large department store could advertise a product more effectively than a small manufacturer, this

is not the primary condition we are considering. For the manufacturer of a standard product like Knox hats to permit little stores to use his money in advertising those hats in a way that seems good to the stores is preposterous. Yet it has been done, not on rare occasions.

The Robinson-Patman Act and Advertising Allowances.—The Robinson-Patman Act is calculated to save such advertisers from themselves. If they find it difficult to refuse the requests, requisitions, or demands of the powerful chain stores to give them money or goods in addition to the lowest prices offered, they can turn to this act (Section 2, paragraphs *e* and *f*). There they will find these significant reminders:

> It shall be unlawful for any person to discriminate in favor of one purchaser against another purchaser of a commodity bought for resale . . . by contracting to furnish, or furnishing of, any services or facilities with the . . . sale, or offering for sale of such commodity . . . upon terms not accorded to all purchasers on proportionately equal terms.

The following paragraph (2) provides that:

> It shall be unlawful for any person engaged in commerce . . . knowingly to induce or receive a discrimination in price which is prohibited in this section.

In the Goodyear case the FTC held that a scale of discounts which culminated in a bracket which only one customer could reach was discriminatory. To illustrate: If the scale of quantity discounts ends up with $1,000,000 when there was only one customer in that bracket, that was not "according equal terms" to all purchasers. The phrase "proportionately equal terms" has not at this writing been interpreted by the courts. Does it mean that, where an advertising allowance of $500 is made on a purchase of $10,000, on a $10 purchase the allowance should be 50 cents. Such an allowance obviously would be valueless.[1]

Presumably some limit will be found to apply to this kind of transaction. The authors believe that the best solution would be the discontinuance of advertising allowances payable in cash. Specific services might be paid for, or specific materials provided, but no carte-blanche permission to spend the manufacturer's money.

[1] Professor John W. Wingate, "Retail Buying under the Robinson-Patman Act," *Journal of Retailing*, New York University.

Exclusive Agents' Cooperation.—Teamwork with distributors reaches its most active point when exclusive agencies are granted. Selling patent rights for a specified territory was probably one of the earliest forms of this type of agency. The term itself is self-explanatory, except where two or more stores are given a kind of joint agency for the city, but then there is usually an understanding that each has his special territory.

In the chapter on Policies with Distributors the exclusive agent is given extensive consideration. Here it is the aim to point out some of the many forms of cooperation that this type of relationship provides. For example, if the product is new and the manufacturer is so limited in capital that he cannot do effectual sales-promotion work, he may be willing to sell to distributors on extremely easy terms, provided that they will build a market for him. In such cases the contract should specify just what the distributor is to do to advertise and sell the product. The manufacturer may go so far as to permit the product to be sold under the distributor's brand. In that case there is usually no concerted action in stimulating sales. It is all left to the distributor to build up his own market.

On rare occasions, the manufacturer whose products are distributed under private brands contributes to the advertising. The Perfection Oil Heater was made on contract for one of the large oil companies. When that company relaxed sales efforts, the manufacturer of the heater put on an extensive advertising campaign at his own expense to stimulate sales—this, of course, with the consent of the oil company. Other manufacturers have contributed to the advertising budget of a distributor to promote sales of products bearing the distributor's brand. This is in the form of a cash appropriation and is usually restricted to agents who have bought all their supplies from one manufacturer for a long time.

At the opposite extreme from the above is the manufacturer who has a well-known product like an automobile. Then an exclusive agency is tantamount to a franchise, having considerable value. The manufacturer is justified in demanding extensive and definite cooperation even if it requires a cash investment by the agent. The Pontiac Company assessed an advertising levy for each car handled and, in addition, required the distributor at his own expense to advertise changes in price and the

introduction of new models in local newspapers, and to publicize the company's radio program. Other advertising was also arranged, such as sending out letters and booklets and placing window displays.

Between these two extremes there are many possibilities. The idea is that both supplier and distributor should prosper by the arrangement. Increased sales mean more profits to both. Efforts to stimulate sales should be divided as nearly in proportion to the division of profits as practical.

Dealer-manufacturer Cooperative Advertising.—Following are the case histories for the year 1939 for three merchants in an eastern city of upward of 100,000 population, situated near a larger city. There is but one newspaper, but it is enterprising and highly representative. Its circulation is about 13,000.

Store *A* is the leading radio and appliance store and carries a complete stock of radios, refrigerators, washing machines, small home appliances such as electric irons and clocks, still- and movie-camera equipment and supplies.

In 1939 this store used a total of 1,872½ inches of display advertising. This account was billed for $1,572.90 at the 84-cent per inch rate and at the end of the year received a rebate of 16 cents per inch, which brought the cost down to $1,272.40 after the rebate of $300.50 had been deducted from the original cost.

It should be explained that the contracts with all accounts are now written so that they are billed at the 84-cent per inch rate, and a rebate is made for more than the minimum linage at the end of the year. This system was inaugurated after so many accounts in this paper signed contracts at low rates and then did not live up to them. This necessitated short-rate billings, and in 90 per cent of the cases the short rates were not collected and the accounts were antagonized. Therefore this rebate system was inaugurated and is operating very satisfactorily. It also has a distinct psychological effect on most of the advertisers in that it makes them try to earn still larger rebates than previously.

The rate schedule for rebates is

1 to 500 inches	84¢ per inch
500 to 1,000 inches	72¢ per inch
1,000 to 1,500 inches	68¢ per inch
2.000 or over	64¢ per inch.

During the year store *A* advertised cooperatively with the following concerns: R.C.A. Victor, 322½ inches; Easy Washers, 150 inches; Frigidaire, 621¾ inches; Philco, 256 inches; Emerson radio, 117 inches; Kodak films, 54¼ inches; and Stromberg-Carlson radio, 36 inches; or a total of 1,557½ inches of cooperative advertising at a cost of $1,308.30, at the 84-cent rate. The manufacturers contributed half this cost, or $654.15. They were not permitted to share in the rebate.

That brought the cost of the entire year's advertising down to $618.25. In other words, the 1,872½ inches of all advertising cost this man only 33.01 cents per inch, while he collected at the rate of 84 cents an inch from the cooperating manufacturers. These cooperative advertisements were nothing but factory-prepared mats with room underneath for the dealer's signature.

During the months of January, February, and March there was a series of teaser advertisements for the grand opening of the new home of the store. These were sponsored wholly by the store. However, when it came to the grand opening announcement, a full-page spread, one found that, out of the 168 inches on the page, three advertisements side by side underneath one big streamer heading—a 42-inch R.C.A. advertisement, a 22-inch Emerson advertisement, and a 42-inch Easy Washer advertisement—occupied 106 inches. Thus 106 inches of this space was subsidized by the manufacturers.

The space used during June and July was used to tie up with a photo contest sponsored by the newspaper and promoted by the photo department of the store. The space during November and December was used for Christmas gift teasers.

Thus one finds very little of the advertising used to put the story of the store itself across to the public; that is, there was no advertising of the institutional type to tell the public the policies and attitudes of the management. Very often the store's campaign, as here, is disorganized and vitiated by a little bonus from manufacturers.

Store *B* is the city's leading clothier and haberdasher. It is a modern, up-to-the-minute establishment, run by a progressive and enterprising merchant.

During the year 1939, this store used a total of 2,041½ inches of display space, for which it was charged the regular rate of 84 cents per inch. This made a total cost of $1,714.86. At the end

of the year this account had earned a rebate of 20 cents per inch or $408.30. When this rebate was deducted from the original cost, this left $1,306.56 as the amount actually paid to the paper for the cost of this space.

However, during the year, the manufacturers of the merchandise featured in this store's advertising had subsidized 58 per cent of the total advertising, or 1,185½ inches: Clipper Craft clothes paid for 560 inches; Worsted Tex clothes for 235 inches; Don McDonald coats for 58½ inches; Palm Beach suits for 82½ inches; Coopers Jockey shorts for 44 inches; Stetson hats for 71½ inches; Manhattan shirts for 124 inches.

The 1,185½ inches of space devoted to cooperative advertising cost $995.92 at the 84-cent per inch rate, for which the manufacturers subsidized half of the advertising to the extent of $497.96.

This subsidy, subtracted from the cost of the space paid to the newspaper, $1,306.56, left a net to the store of $808.60 for the entire space of 2,041½ inches of advertising used. This means that the entire year's advertising cost the store only 39.60 cents per inch, which is less than half the base rate for this space.

Store *C* is the city's leading auto-accessory store, more like the old crossroads general store. Here the consumer may buy anything from a cotter pin to a 10-ton truck. Besides stocking automobile parts, conducting an automobile repair shop, selling International trucks, Goodrich tires and tubes, and all kinds of auto radios, this store also has electric home appliances such as refrigerators and stocks a quite complete assortment of toys and bicycles.

Squeezed in at the bottom over the signature of the cooperative advertisement is usually a message pertaining to any one of the hundreds of other items in this merchant's stock. So his manufacturer pays half the cost of advertising the branded goods as well as half the cost of the other goods or services mentioned in the same advertisement.

In 1939 this merchant used a total of 583½ inches of display space, for which he paid $490.14 at the base rate of 84 cents per inch.

Of this 583½ inches of space, a total of 553½ inches was subsidized by the various manufacturers. This space cost $464.94, of which the manufacturer's share was $232.47.

Because of the rebate on the 583½ inches of space, the store paid for the year $70.02, or 12 cents per inch. Now deduct this figure plus the manufacturer's subsidy, and this advertising cost this merchant $187.65 of his own money, which amounted to only 32.15 cents per inch.

The Goodrich Company paid for half of the 465 inches of cooperative advertising done by this merchant. The International Truck Company subsidized 63 inches. The Gibson Refrigerator Company subsidized 25½ inches.

Summarizing, a 4-inch advertisement run on Flag Day, a 16-inch advertisement on the day before the inspection period began for an automobile service, and 10 inches in December for gift-teaser advertisements comprised his self-sponsored campaign.

Cooperation with the Department Stores.—In the previous paragraphs an account was given of vertical cooperative advertising in a medium-sized city. The following came from a large department store—one of the first 20 in the country. The report is presented exactly as it was sent by the store's representative.

Enclosed you will find a list of manufacturers, all of whom are national advertisers, with national distribution. They are for the most part representative of their fields as far as cooperation on advertising with retail stores is concerned.

In some cases, special allowances are made for specific promotions; or an allowance for advertising is based on the season's purchases; or there is an allowance per piece of merchandise.

Our records show that there is a definite increase in the amount of manufacturer-money that is being offered to retail stores. In the six-year span between 1933 and 1939 the per cent of vendor-paid linage to gross linage used by the store increased from 6 to 17 per cent. There seems to be a definite tendency for varied fields to establish set cooperative advertising agreements which do not vary for each of the individual retail establishments. The cosmetic and corset fields, I believe, were the pioneers of such agreements.

Notions	
Odora	All paid up to a maximum allowance for the season
Decorative Cabinet Co.	½ paid (sometimes all paid, up to a maximum)

Kleinert	½ paid
Richards, Boggs, King	½ paid
Drugs and Cosmetics	
Vitamins Plus	¾
Elizabeth Arden	⅔
Primrose House	½
Helena Rubinstein	⅔
Charles of the Ritz	⅔
Barbara Gould	½
Coty	½
Sales Builders	½
Gloves, Hosiery	
Van Raalte	All (sometimes ½ on special promotions)
Underwear, Corsets	
Vanity Fair	½
Kops Bros	½
Formfit	½
A. Stein	½
Lily of France	½
Jantzen	½
Poirette	½
Warner	½
Fay Miss Bra	½
Washable Dresses, Uniforms	
Taben-Picker	½
White Swan	½
Men's Furnishings	
Robert Reis	All
Great American Knitting Mills	All
Home Furnishings	
Simmons	½
Comfy Manufacturing	½
Vapoo	All
A. S. Boyle	All
Frigidaire	½
Rex Cole	½
Westinghouse-Times Appliance	½

It seems to be common practice for national advertisers to help finance advertising for retailers who handle their products. Also the general method is illustrated in the previous paragraphs. This would seem to the authors to be better business for the manufacturers than for the stores. However, making a budget

for this kind of campaign must be difficult, as the advertiser cannot determine in advance how many dealers will cooperate, or to what extent.

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CHAPTER IX

Miscellaneous Policy Items

The Advertising Department.—It is an unusual business in these days that does not have an advertising department. That means that the firm's advertising is of such importance that at least one man will be assigned to look after it. Sometimes the man will have other duties also. Sometimes he will have many assistants. So important is advertising to the Wrigley Company that the chief executives give it a good deal of attention. The president of the company assigns another man the title of advertising manager, but Mr. Wrigley is closely in touch at all times with all the advertising that his firm does. The same thing is true of the leading cigarette-manufacturing companies. The president of one of these said, "My first concern is to see that the advertising is the best that we can get."

The size and make-up of the advertising department will depend more upon the kind of advertising than upon the amount. The Campbell Soup Company, relying chiefly upon magazines and radio to do its selling, has very little to do with the advertising in its own offices. Yet Dr. J. T. Dorrance, who was the head of that company for many years and who had personal supervision of the advertising, said that he read "all of the food advertisements" that appeared in the magazines and "most of the others." All this is evidence that, even though the "publicity department" of a firm is small in personnel, it does not follow that the advertising is regarded of secondary importance. With most of the firms that the writers know, quite the reverse is true.

Where a large amount of sampling or direct-mail advertising is done, the usual practice is for the advertiser to handle the bulk

of the work in his own offices. If an outside firm, like the Advertising Distributors of America, is engaged to do the actual work of distributing circulars or samples, the agency can offer little assistance. The distributors might as well be employed by the advertiser as by his agent.

Very few of the placing agents are organized to handle a large amount of direct-mail advertising. Sometimes they employ service agents to prepare such advertising for their clients when direct mail becomes a strategical part of the campaign.

When the campaign uses coupons and an effort is made to refer inquiries to dealers, the advertiser can usually do that work more efficiently than the agent. Any cooperative sales-promotion work done with distributors can usually be handled better in the advertising department. It is generally more satisfactory for the results of copy testing to go directly to the advertiser, unless there is good reason to make an exception to that excellent rule.

The advertising manager should analyze the media proposed by the agent. A reason for this is found in the following incident: An automobile manufacturer sold over 90 per cent of his new cars to people who already owned one of his cars. When the annual schedule came up, it was offered in a rather routine way. The advertising manager sent it back with a notation to the effect that the proposed circulation did not parallel present ownership closely enough to bring the best results. He also sent the registration of his cars by counties for the whole country. As over 95 per cent of new cars were sold to people who owned earlier models of the same car, it was particularly desirable to cultivate the market in which lay the greatest possibilities.

It is possible and often highly desirable to spot circulation according to established outlets. Evidently, the advertising manager is in a better position to say where circulation is needed than the space buyer; but the latter should know better what media will reach the designated territories advantageously.

Just how the advertising department should be organized and to whom it should report again depends on the nature of the business and sometimes upon the personnel. If the sales manager is a high-powered executive who really knows advertising, it may be best to have the advertising department under his jurisdiction. This should secure a high degree of coordination between the

advertising and selling efforts. Where sales are made direct to dealers, and a considerable amount of sales-promotional material is distributed by dealers, the sales manager is closely in touch with all the conditions and in a strategic position to direct the advertising as well as the salesmen.

Functions of the Advertising Department.—Handling of such projects as exhibits at shows, the distribution of dealer signs, etc., is strictly the responsibility of the advertising manager, and a sales manager should not be bothered with such details. But when it comes to adopting an advertising policy, even though the sales and advertising departments are strictly coordinate, this should be decided by the two managers and the vice-president in charge of sales, who covers both advertising and selling. If the firm is too small to have such an official, then the president should join in the conference.

If unhappily the sales manager does not have the requisite enthusiasm for advertising, or if he fails to grasp its full significance, then to give him authority over the advertising would be a grave mistake. Fortunately, the relationship of the sales and advertising departments is not so fundamental that a shifting of responsibilities need seriously affect a campaign. The final result should be one to bring the best teamwork.

One duty of the advertising department is to keep records. It may be argued that the bookkeeping should go to the accountant's office, but, as we know too well, the regulation accountant —even a C.P.A.—does not keep all the records that the advertising and sales department should have available for reference without delay. These records should show

1. The amount of money available for the year's advertising.
2. The amount already under contract to media.
3. The amount still available for supplementary activities
4. The amount spent by months; that is, the total of all the advertising charges at the end of the month
5. How much of the amount spent is effective, at present showing results; that is, the lag—how long it is after an advertisement appears before the effects of that advertising are shown in sales.
6. How the amount of effective advertising for the month compared with sales; that is, how long after an advertisement appears it can still be expected to produce results and what are those results
7. How much money actually spent for advertising on a given date has not yet begun to show results.
8. The value of the advertising material on hand at any time.

9. What the cost of advertising is for unit sales in each territory covered, which is perhaps the most important of all.

The above-mentioned duties for the advertising department is only partial. In no two businesses will they be the same. The advertising manager is usually the one who works with the account executive from the agency. In this capacity it is his duty to check up on the campaign as it progresses, to see that nothing is overlooked and that the agent renders all service to which the advertiser is entitled. He will advise with the agent on the artists to be employed both for illustrating and for participating in radio programs. He should sit in with the planning committee and look after all the details of the campaign.

The Advertising Agent.—If there is any considerable amount of advertising, an advertising agent should be employed. This is particularly true if the usual media are to be employed; for under the present agency system, the trade discount or commission which established media grant agents is sufficient reimbursement for their services. If it does not cover the whole of the charges, it will be so substantial that the cost will be far below the value of the services received.

An advertising agency is an organization which is skilled in selling, in its broadest sense. Many attempts have been made to enumerate the specific services an advertising agent can perform, but with each account they differ, and, no matter how inclusive a list may be, there will always be some help that an alert agent can provide that is not on any list. Analyzing markets, solving merchandising problems, and correlating all sales-promotional efforts into a campaign is a comprehensive way of stating what an agent does.

A good campaign will be the result of the joint action of the advertising and sales department of the advertiser and the advertising agent. Just how much and what each should contribute varies with the personnel and the nature of the campaign. With a difficult merchandising problem like distributing fresh yeast, it is possible that the part the agency plays may be wholly secondary and auxiliary to the work of the sales department. Again with a selling service, like ocean voyages, the most important factor may be the copy and the success or failure will depend upon the agent. These are extremes, yet even here there must be a high degree of cooperation in order to secure the best results.

Where so many confidential matters enter into a project and where the ultimate end requires the coordination of so many different efforts, it is highly advantageous to have a congenial group. As the personnel of the advertiser is usually fixed at the time an agency is first considered, it is essential that an agency be chosen which will provide at least a contact man, or account executive, in whom the advertising manager has the greatest confidence, and that he be of such a personality that he can work with the advertising manager with a minimum amount of friction. Both men, to do their best work, must know the business intimately. If the advertiser has not enough confidence in his advertising manager to entrust the confidential details of the business to him, he has the wrong man and should make a change. This statement also applies to the account executive. Any policy or practice that acts as a bar to such confidential relations should be carefully scrutinized with a view to its elimination.

Sometimes the advertising agent assumes most of the functions of an advertising department. If the advertising is to be primarily in periodicals, as was the case with Cream of Wheat for many years, the agent did practically everything; that is, the agent looked after all the details. Col. Mapes, head of the Cream of Wheat Company, made the final selection of the picture that was an invariable part of the advertising. Occasionally he commissioned an artist to paint a picture. Then it was turned over to the agent to be prepared for the campaign. Mr. Underwood, head of the company which bore his name, advertised his typewriter very little except when his agent brought him a striking picture which could be associated more or less directly with the Underwood typewriter. Then he approved a list of periodicals to carry the display.

While both of these firms were highly successful, that method of advertising could scarcely stand up under present-day competition. The agent may take over the conduct of an advertising department; for that to be successful, the campaign must be simple, and the man who confers with the agency must still be in a position to represent the advertiser as effectively as any man holding the title of advertising manager.

Choosing an Advertising Agent.—Just how is one to go about choosing an advertising agent? One may look over the list of accounts the agent already has. What is the nature of these,

and how prosperous do they seem to be? How long has the agent held these accounts? It is rather surprising that one of the largest agencies has held its accounts an average of less than 4 years. What can you learn of the personnel? How long have the employees been with the institution, especially the key men? The more stable the agency is, the more confidence one might have in its ability to produce. The "Standard Advertising Register" gives lists of accounts and of agency officials. To compare the current volume with last year's and with that of a few preceding years is enlightening as to the length of time both the account and the principal employees stay with an agency.

Then one may well ask: What is the nature of the accounts carried? Are they, or any of them in the same industry? Are they large or small or a combination of both? Is the agent recognized by the different media whose use is even distantly contemplated?

There is much controversy over the advisability of placing directly competitive accounts with the same agency. Usually, even agency men do not recommend it. Almost every agent has two or more accounts which are at least indirectly competitive, but they are generally held to be exceptions. In finance, in theatrical advertising, and to a great extent in travel, agencies specializing in the field handle many accounts, some or all of which have a strong competitive element, but, as each agent is a specialist, it is assumed that he can do a better job than another agent with less experience in the field.

A large agency with many accounts can handle competitive campaigns with less danger of interference than agents with smaller working forces and fewer accounts. A. W. Erickson, one of the most successful advertising agents of the country, both for his clients and for himself, always avoided competing accounts.

One of the by-laws of the American Association of Advertising Agencies (the AAAA) prohibits soliciting accounts of other agents, but this Association has less than 150 members, while there are more than 1,000 agents in the country recognized by the census reports. One of the curses of the business is the excessive soliciting of each other's clients. It is particularly pernicious, because it costs so much to solicit that it may interfere with the service provided clients. The following is suggested as a partial relief for such solicitations.

Ivy Lee used to be consulted by his clients as to the selection of advertising agents. He would look the field over, select a few of the most promising, then write them something like this: I have a client who is looking for an advertising agent. After consulting your list of accounts I am convinced that his business would be a logical addition for your agency. I have made some investigations and before making a recommendation I'd like to know how the amount of money you spend to get business compares with what you spend to give service to the business you have.

It was a shrewd, meaningful question. Some did not like to answer it, but those who did answer favorably had a very strong selling point. The same question can still be asked with the same significance.

How Agents Are Paid.—The remuneration given advertising agencies by the various media is founded upon the nine following services:[1]

1. Preparation and insertion of advertisements.
2. Preparation of radio programs.
3. Educational efforts among our salesforce.
4. Studies of market trends within our field.
5. Studies of competitive practices of other manufacturers.
6. Package design and testing.
7. Detailed studies of consumer buying habits and purchasing power necessary to the exact definition of markets.
8. Studies of the sales opportunities offered by different channels of distribution.
9. Preparation of display and other promotional material.

The chief source of agency income of the larger operators is a commission, or trade discount as they like to call it, granted by advertising media. The standard allowance is 15 per cent, plus 2 per cent for cash, which is to be passed on to the advertiser if his account is paid within the specified 10 days. Some publishers allow no discount; others, 10 per cent. Fees are fixed at 15 per cent for expenditures outside the regularly advertised services.

This system of payment is under constant attack and has been for many years. First, it is held by many to signify that the advertising agent represents the medium rather than the advertiser, because it is the medium that "recognizes" and pays him.

[1] J. W. Young, "Advertising Agency Compensation in Relation to the Total Cost of Advertising," University of Chicago Press, p. 57.

In practically all cases, the agents have taken the stand that they represent the advertiser and not the medium. They explain the 15 per cent discount on rates as a trade discount, similar to one that might be given a wholesaler in distinguishing him from a retailer.

The other contention is that a flat percentage fee is unfair both to the advertiser and to the agent. The inflexibility of the system requires an agent who prepares but one advertisement and inserts it in six magazines at a cost of $45,000 to charge the same commission that he would charge another advertiser for preparing a series of 18 pieces of copy which is placed in 50 newspapers where the gross cost of the space is the same.

The critics of the system further point out that this system of payment puts a constant temptation before the agent to get his client to overspend, as the more the client spends, the more the agent makes. Although this condition does exist, it is by no means unique. The architect works under the same plan. So in a way does the physician; the longer his patient is ill, the more he can collect for attendance.

In each case, the real professional man is more interested in doing a good job than in adding a few dollars to his fee. If an architect can establish a reputation of building satisfactory buildings at reasonable costs, his business will grow and he will be given new commissions. The popular physician is the one whose patients speedily recover (a few with chronic ailments excepted). The advertising agent most sought is the one who makes money for himself by making money for his client.

The service agencies work almost wholly on a fee basis. Sometimes this is a flat fee covering a specified period of time and involving such duties and services as the advertiser wants. The other plan is that each job is handled separately, on a bid basis.

The first of these seems quite ideal. It provides that there will always be an advertising man available for consultation and to take care of the necessary work. The pay is in proportion to the service. None of this applies to the job-by-job scheme, which is therefore weak and usually unsatisfactory if there is much advertising to do.

Even the largest agencies usually have a few accounts which are taken on a fee basis. Some of the placing agents will not accept an account unless the gross expenditure amounts to

$50,000 a year, or returns a gross commission of $7,500. In one case an advertiser made a contract with an agent to act as his adviser at $10,000 a year. He was not sure whether he would do any advertising, but he wanted the agent's advice on marketing.

It has been suggested that a better basis for remuneration would be a share of the profits which result from the advertising which the agency prepares and handles. That would take the agent's interest off getting O.K.'s for copy and schedules and place it upon sales, where it belongs. Until cost accounting makes much progress, there can be little hope of such an improvement.

The Young-Haase Controversy.—A few years ago the question of agency compensation became so acute that James W. Young of the University of Chicago, for many years an agency man, was engaged to conduct an "impartial" investigation of the fairness of the present system. The following is the gist of Mr. Young's conclusions:

The history of the advertising agency clearly shows that no advertiser, publisher, or agency owner deliberately planned and set up the agency structure as it exists today.

The advertising agency came into existence and developed in association with the periodical-publishing business. It would appear truer to say that the agency created the modern publisher, by taking what was originally a by-product of the publishing business and making its sale so valuable that the entire economics of publishing was changed.

Not since its very earliest days does the advertising agency appear, in the real sense of the term, as the "agent" of the publisher. Men who enter the agency business have always done so, typically, as independent entrepreneurs, risking their own capital and seeking a profit in their own ways, in competition with other ways. In selling what they had to sell, or in performing what they undertook to perform, they have served the interests of both publishers and advertisers when either found it profitable to engage them to do so. They have never had any other franchise from either.

In his search for a profit, the agency operator or advertising man has tried many ways of finding it. He has sought it by promoting the sale of advertising space alone; by offering a creative advertising service alone; by offering advertising counsel alone; by working for some one advertiser alone. And he has tried these ways at all periods and at all sorts of prices.

Of all the methods tried, that which consistently proved most productive for a certain sort of man was found in promoting and facilitating

the use of the periodical publisher's space. Out of this activity grew the advertising agency.

In the process of promoting the use of the publisher's space, both agency operator and publisher learned from experience three facts which appear to be fundamental and universal in their application to the sale of advertising. These are:

First, that the use of advertising does not result from an acute need felt by the advertiser as often as it does from a conception of the future possibilities presented to him. Therefore such conceptions for the use of advertising may profitably be sold.

Second, that such conceptions may be sold most easily through the creation of advertising copy and are in fact very difficult to sell without it.

Third, that the use of advertising is most soundly sold where the best opportunity exists to study its application to a particular advertiser's possibilities.

All that the advertising agency is and does today grew out of its experience with these three facts in the promotion of the use of advertising. Advertising agencies gradually developed a more effective mechanism for supplying these three requirements of advertising promotion than any individual publisher was able to develop. The publishers' support accelerated the development of the agency as we know it today. Crystallizing in the publisher's recognition standards, it protected the agency in its development of new advertisers; furnished a check on inexperience in the agency business; set a public-opinion standard for agency compensation; encouraged the expansion of agency service; and weeded out the men who could not compete in the delivery of that service.

Upon the operations of the agency mechanism as thus developed, the publishing business of the entire country now relies for a very large proportion of its income. The interests, greater or less, of 17,000 publishers are involved in the agency structure. Few, if any, of these are able to perform the functions the agency now performs for them. Irrespective of the question of compensation, the preservation of the agency mechanism is a necessity to the publisher. As long as the necessity exists for the promotion of advertising through the creation of advertising, and for guidance of the inexperienced, the agency mechanism will be vital to the publisher's interests. It is not a question whether, individually, publishers could supply this need at a lower cost in some other way—the history of the agency's natural development is prima facie evidence that they could not. The pertinent question is whether individually publishers could perform these functions at any cost. If the agency's incentive to promote and protect the use of advertising was removed, it would be necessary for the publisher, in

his own interest, to recreate a similar mechanism with a similar incentive.

Mr. Young's conclusions are:

That the flat rate, in which all publishers and all advertisers carry in proportion to volume a share of the total direct and indirect costs of the advertising service structure, is either right for all advertisers and publishers or wrong for all.

That the method of advertising-agency compensation now in force is the most practicable one for maintaining the true and long-run interests of all advertisers and all publishers.

That the rate of compensation is not excessive for the structure as a whole.

That all advertisers and publishers should bear, in proportion to volume, a share of both the direct and the indirect costs of the structure.

The other side of the controversy, that is, the Association of National Advertisers, engaged Albert E. Haase to review Mr. Young's findings and bring in another "impartial" report. As Mr. Haase's previous experience had included several years as executive secretary of the Association of National Advertisers, his report and criticism could be impartial only to the extent that he could divorce himself from previous thinking. His conclusions on the subject follow:

Analysis of the Young report leads to this conclusion: It cannot be accepted as a study on "Advertising Agency Compensation in Relation to the Total Cost of Advertising." Because: (1) the base of the study appears to be too narrow; (2) It gives no light on the legal relationship in the advertiser-agent-publisher situation. *The evidence appears to be insufficient.*

It is to be regretted that such a conclusion appears to be warranted because many had hopes that from such a study as this, information might be obtained which would form a real basis for intelligent discussion on questions such as: (1) Should the present system of agency compensation be retained; (2) Should it be modified, and (3) Should it be completely dropped and, say, a service fee basis substituted?

If I may, in conclusion, offer a personal opinion, I would say that the present report is only a starting point. However, in leaving that thought with you, I would definitely offer the opinion that everyone concerned with advertising is benefited by this report, for it is spreading information not hitherto generally available in printed form and by so doing will doubtless cause a demand for additional information. It will thereby, perhaps, speed any necessary or required changes if times and conditions demand such changes in advertising agency compensation in relation to the total cost of advertising.

The Guaranty.—In the case of small items, those that are used up and replaced frequently, the trade-mark or the reputation of the stores where the items are purchased is regarded as ample protection. An unsatisfactory item will usually be replaced as a matter of "good business." The advertising value which comes from replacing an article which did not meet the expectations of the buyer is usually much greater than the cost of replacing it. It is with the higher priced items, particularly those that need servicing, that the guaranty is most effective and most troublesome.

The mail-order houses could not have built up country-wide sales without a universal guaranty which they scrupulously observed. The reputation which the leaders in this field established, of replacing or otherwise making an acceptable settlement for unsatisfactory merchandise, became a constant source of profit to them. Without an unlimited guaranty, people would not have sent their money hundreds of miles to buy products "on sight, unseen," especially when it was understood that purchases could not be delivered for days, or even weeks. John Wanamaker, in his Philadelphia store, is credited with being the first merchant to accept all returned goods in exchange at full value. Competitors thought that unlimited offer would ruin him.

An article like a watch, which is of high unit value and which is expected to be in use for a long time, needs some definite assurance of satisfactory service. So a 20-year guaranty is common. Now this should not mean that, after 18 years of rough usage, such as a farmer gave his guaranteed watch case, he could return it because it was worn through and have the store replace it with a new case without any extra charge. That would be equivalent to supplying him with 36 years of watch wear when he had paid for only 20. Yet, that is what a Gorham store did on one occasion.

One grocery firm offers to refund the price of any article carrying its brand which a grocer sells, if the buyer is not so well pleased that he is willing to repeat when again in need. Nothing is to be returned. No claim is necessary. The plain statement that it was not good enough so that the customer wanted to use it again is enough to have the purchase price refunded. The firm supplies blanks to the grocers to report such refunds, and the amount is made good. The theory is, if the merchant sells the article he

is entitled to his profit. If the article is not satisfactory, it is the manufacturer's responsibility and he should repay the grocer, who gave the money back, the full retail price. The manufacturer explains that this plan takes the place of sampling. A new user can always try any article on the manufacturer's list upon the maker's responsibility. If the consumer likes it and continues its use, he has had his money's worth. He has had an ample amount to give it a thorough trial and, if it is not satisfactory, it costs him nothing.

The spectacular offerings that come over the radio of "double your money back," or, in one case, "three times your money back," are sensational. They are convincing to the extent that they show the utmost confidence of a producer in his product.

An honest man never expects to take advantage of a guaranty at the time he makes a purchase. The dishonest ones, who are looking for an opportunity to pick up a small amount through trickery and deception, are not sufficiently numerous to be burdensome. Besides, cheats are usually braggarts, and they may do enough word-of-mouth advertising to make up for the small amounts they get illegitimately. In case of the firm mentioned above, the refunds are negligible. Grocers do not cooperate sufficiently with refunds to give the plan the advertising value that was hoped for it.

Guaranties Including Service.—Home-used machines offer plenty of difficulties in practical guaranties. A new piece of apparatus, whether an automobile or a radio, is usually operated by one who knows nothing about machines and has the most limited understanding of how such machines should be operated or cared for. Yet when a purchase is made, some form of assurance is required by the purchaser that the mechanism will give service as he operates it.

The printed guaranties are made by lawyers who are expert in that line. Most of them protect the manufacturer rather than the buyer. For example, the Westinghouse Company uses this clause in the guaranty for its electrical refrigerator:

> We warrant to the original purchaser the refrigerating equipment sold by us and all parts thereof to be free from defects in material or workmanship under normal use and service. Our obligation under this warranty shall be limited to repairing or replacing any part of said refrigerating equipment which proves thus defective within one year

from date of original installation, and which our examination shall disclose to our satisfaction to be thus defective. This warranty is in lieu of all other warranties expressed or implied and of all other obligations or liabilities on our part, and we neither assume, nor authorize any other person to assume for us, any other obligation or liability in connection with the sale of said refrigerating equipment or any part thereof. This warranty will not apply to said refrigerating equipment or any part thereof which has been subject to any accident, abuse or misuse.

Note the phrase: " · · · our examination shall disclose to our satisfaction to be defective." This puts it wholly up to the manufacturer. It permits him to do as much or as little as he chooses. If his inspector is not "convinced" that the part was faulty when it left the factory, nothing can be done about it. Yet this form, even the wording, is the same as with most articles of this kind. If the company stood strictly on its legal rights, probably its sales of refrigerators would be narrowly restricted. The dealer who sold the refrigerator nearly always will help out if there is trouble.

At one time, there was an attempt to sell oil burners for private homes with an agreement to service them. Evidently there had to be a limit to the number of times a service man could be called upon without being paid. What arrangements could be made? Obviously the manufacturer wanted to assure constant and satisfactory operation. The contracts with installers required a rather indefinite amount of service for the first year. After that, when the dealer is called, a charge for service is now generally made.

The oil companies which sell oil burners to increase their sales of oil handle the service problem somewhat differently. Following is the principal clause in one of these contracts:

The seller guarantees the oil burner to be free from defects in material and workmanship in normal use and service and obligates itself to repair or replace any part or parts within five years from date of original installation provided the buyer and successor or successors in title purchase from ___*(the oil company's distributor)*___ on prices __________ and conditions of said company only, the fuel oil requirements of said buyer at place of installation of said oil burner for the period of five years. It is being an express condition that the buyer will neither directly or indirectly service or cause to be serviced the said oil burner during said period by any other than the seller.

To be assured of a regular oil customer this firm assumes the responsibility of servicing the burners it sells. But if its oil prices seem too high to the owner of the burner and he buys other oil, not only does he lose the free service but the terms of the guaranty no longer apply.

In any case, the buyers have to pay for all expense incurred in making good on guaranties. The original price is set high enough to cover such costs. The more liberal the terms, the more will have to be added to the price to take care of complaints. Many firms therefore keep their commitments for replacements carefully hedged and maintain as low a price as possible, then let the buyer pay for whatever service he requires. But the original prime condition of the article is assured by the maker in all cases.

Meaningless Guaranties.—Much of the loose talk in advertising and selling about products being fully guaranteed is wholly meaningless in so far as any legal responsibility is concerned. For example, an advertisement before the writer states:

> This seal is your guarantee of beauty and satisfaction. Unitized wallpaper, Sun tested, Wall tested, and guaranteed. Every pattern carrying this *unitized* seal is absolutely guaranteed to hang right—to be correct in style and pattern—and to meet special standards for sunfastness! And it is guaranteed to be genuinely washable if marked "Washable"!

Who is to judge what is "correct style and pattern?" And just what are the "special standards for sunfastness?" Also what kind of beauty can be guaranteed? As for satisfaction, in actual practice that is about all that can be definitely promised. If a purchase proves disappointing and a customer may be lost, it is generally far better to make good to that customer than to lose her. The idea is that a steady customer is of far greater value than the amount involved in any single transaction.

Guaranties for paint or building materials sometimes offer a measure of protection to buyers. However, if the paint fades or peels or otherwise proves defective, just what equitable settlement can be made? If more paint is supplied, the owner will still have to pay for having it applied and that costs more than the paint, so the replacement falls far short of making good to the customer. Where a guaranteed part of a machine proves defective and the expense involved in replacing it exceeds the cost of

the part which is protected by the guaranty, the good will of the customer will probably be lost.

Guaranties for caskets, for meals at restaurants, for a good night's sleep at a hotel, are all of a kind spectacular but meaningless unless the seller chooses to put some meaning into the transaction, for advertising purposes or otherwise.

To guarantee a thing like baking powder is virtually to guarantee the user's skill in using it. That at best is a risky business. To give the purchase money back will not help. If a woman has spoiled 50 or 75 cents' worth of ingredients in a cake because a half cent's worth of baking powder failed to act as expected, refunding 15 cents for the original purchase will not retain the woman's good will. Probably the fault was hers, but that is a dangerous assumption to make where her good will is at stake. Although the authors have seen a guaranty for baking powder advertised, they fail to find any campaign where it has been featured over any considerable period.

Again, it should be stated that satisfaction is about all that can be promised. In the case of automobile tires, it is now common practice to make a settlement allowing for the time or mileage which the tire was supposed to provide and did not. The assurance that a tire will not fail in the middle of a desert—a thing that the owner wants to be protected against when taking a cross-country trip—is not provided in any guaranty the authors have discovered.

To promise too much leads to trouble. The lifetime guaranty of fountain pens was immensely impressive when it was first made. But when a service charge is exacted, which was not anticipated when the purchase was made and which seems to the buyer to be all that would probably be charged in any event, the guaranty loses most of its effectiveness.

The purpose of the guaranty is to promote selling and, by giving assurance of quality, to remove suspicion from the mind of the buyer. To fail to live up to all the assurances which the purchaser understands to be given is to create vastly more ill will than would result from the mere failure of the product.

A Family of Products.—A family of products is made up of several manufactured items, sufficiently similar to come from the same factory and be distributed through the same channels and usually bearing the same trade-mark. A full collection of spices

would not, however, be regarded as a family of products for a spice mill; nor would a variety of shirts or a group of articles so dissimilar as to require different channels of distribution be looked upon as a family.

One of the first questions that comes up is: Should there be a family? Manufacturers of most of these products which became household supplies of the past generation did not want more than one product. Packer's Tar soap, Cream of Wheat, Bon Ami, Castoria, Wrigley's gum, Gillette's razor, Lipton's tea, Big Ben clocks, Sani-flush, Royal baking powder, Knox gelatine, and a host of others were promoted on the idea that one product was enough. Some of the above have changed their policy and now offer a family of products.

With a single product, it was possible to pre-empt the market. Advertising was simplified and concentrated. Almost any product used in the majority of homes makes a sizable business if one firm can get a considerable part of its sale. Concentration means efficiency and simplicity of operation. One widely accepted product makes a sure, comfortable business.

It is apparent that, where there are valuable by-products, the question solves itself in favor of more than one item. But other manufacturers do not agree that concentrating on a single item is the best policy. If you have but one product and a new invention or discovery makes it obsolete, these manufacturers point out you will be out of business, where, if there were several different products, others might permit the business to continue.

Other reasons for bringing out new products under a widely accepted trade-mark are

1. One salesman can handle several well-advertised items as well as one.

2. It may be possible to have such a strong family that it becomes essential for every store to handle it. General Foods, Heinz, National Biscuit, and Procter & Gamble are all in that enviable position.

3. Each item helps sell the others, thus creating a volume of business.

4. Many times factory economics are accomplished by a variety of products. The Campbell Soup Company can put up pork and beans on Mondays, when it is found difficult to get fresh vegetables.

5. Shipping is facilitated. There should always be enough tonnage to get minimum rates.

Numerous other advantages could be pointed out, but probably these are the most important. There is no question but that the recent trend has been to increase the number of products. Such well-known names as Heinz or Beech-Nut help to sell new products, and manufacturers are generally taking advantage of the popularity of their trade-marks in that way. General Foods, however, has been organized out of a large number of single items, each of which gained wide recognition as a single product. Maxwell House coffee, Postum, Swansdown flour, and Jello are examples. They maintain their separate identities although divisions of the largest of food manufacturers.

General Foods As an Organization.—General Foods products reach the consumer through the 400,000 retail grocery stores in the United States. The sales organization that makes this possible operates under the name of the General Foods Sales Company, Inc., with headquarters in New York, where there is a staff of specialists in market analysis, planning, and sales operations. Divisional sales headquarters are located in New York, Chicago, and San Francisco, and these three divisions are divided into 26 sales districts.

Each district office has several groups of salesmen—one group to contact the wholesale trade and chain stores, one to call on retail grocers, and one to sell to hotels, restaurants, hospitals, schools, public institutions, etc. In addition there is a separate sales organization handling Hellman's mayonnaise products and other semiperishable items, selling direct from trucks to retail dealers, on whom the trucks call frequently enough to ensure the freshness of the merchandise.

Still another group of salesmen is maintained to give special sales service to manufacturers—confectioners, bakers, etc.—who use General Foods products in the manufacture of their own lines.

Sales in Canada are administered by General Foods, Ltd. with headquarters in Toronto and a complete selling organization throughout the Dominion. Sales in other countries are controlled by the export department of General Foods Sales Company, Inc., which has agents in nearly every country in the world and which maintains its own offices and sales staff in the British Isles, operating under the name of Grape-Nuts Company, Ltd.

All advertising is based on careful research and experimentation. Each product receives separate and individual attention; it is advertised in the way and to the extent that its particular requirements demand. The advertising of each product benefits, of course, from the experience gained from advertising all the products in the line.

The function of the advertising is to induce consumers to ask for General Foods products by brand names, to increase frequency of use, and to provide for the products a large consumer market to which dealers can successfully appeal. The function of the selling organization is to see that retailers and wholesalers have sufficient stocks on hand to satisfy their trade, to encourage dealers of all kinds to obtain for themselves maximum advantages, and to maintain throughout the channels of distribution a cooperative relationship which is beneficial alike to distributors and to the manufacturer.

Advertising is centered in a single department, administered by an officer of the company. Each assistant in the department devotes his entire skill and effort to a small group of products to which he can give the utmost of individual attention. The extent of the company's advertising makes available the best in market studies and research, plans and preparation, production and promotion.

General Foods Corporation maintains an educational department staffed with women trained in food selection and preparation. This department makes studies of the contribution of various foods to human welfare. It studies diets, eating habits, and trends. In its experimental kitchens, it develops the best ways to serve General Foods products. It devises new recipes and aids in the development of new products.

Advertising a Family of Products.—Many complications arise in connection with keeping the merits of each item of a family of products before the public. This is further complicated when there are different grades to be considered. There has been no one answer found for this situation. Sunkist oranges have a brand that does not come up to the extra fancy grade, which they put out under the trade name of Red Ball. These fruits sell in a wholly different market, primarily through the South. It is common practice among the hosiery manufacturers to put seconds in the export market. Aluminum manufacturers at one

time put their brands on the first grade and sold the imperfect merchandise under private brands. Some manufacturers advertise two or three leaders and expect them to carry the rest of the line. Sometimes only one leader is advertised, as with White Rose tea.

There is no one plan that seems to fit all conditions in the selection of trade-marks where different qualities are offered. It should be remembered that the Patent Office will not register grade marks, so it is not possible to protect any sort of emblem designating a grade. This may be important when it comes to having educational labeling, as discussed under the topic Consumer Movement. In designating grades, perhaps the Atlantic and Pacific Tea Company has been as successful as any firm with their coffee, which is put out under three names—Bokar, Eight O'clock, and Red Circle. The packages are somewhat similar, yet different. Each of the names is widely advertised, and every housewife is familiar with all of them and knows the different grades. In the automotive field, there have been a good many different plans adopted. The Nash Company has had a smaller car which they put out under a different name. Hudson did the same. Finally, each dropped the name of the little car. Packard has never had but one name. Ford cars are designated by different names as are those of General Motors, while the Studebaker has kept that name as dominant but designates the different grades by adding such terms as President, Commander, etc., although they tried out two small cars under individual names.

There has been a great temptation for drug companies, having hundreds of products, to adopt many trade-marks, assigning one to popularize each group of more or less similar articles. When one considers how difficult it is to get a name recognized by 100 million people, the advantage of keeping the number of trade-marks at a minimum is apparent. Swift and Company have their blanket trade-mark, which goes on all of their products, thus identifying the source. The G. E. of the General Electric Company is another similar trade-mark. However, where a trade-mark of this character is used, the advertising becomes much more difficult. It is utterly impossible to mention each product when the family runs into hundreds of different items. To concentrate copy on the ability of the firm to supply the best goods in the best way may be called good institutional advertising, but

it is so difficult to write selling copy of this nature as to be almost impossible.

There seems in certain places to be a trend to the elimination of different grades of a product unless they can be definitely designated. As one manufacturer put it, "We make but one product and the best we know how." This simplifies business, but perhaps in the long run would not result in so great a volume as the firm could have secured with several items of lower quality.

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CHAPTER X

Good-will Protection

Three Forms.—There are three fundamentally different ways of protecting the good will of a business: (1) patents; (2) copyrights; (3) trade-marks. Recently the courts have also recognized a property right in ideas and inventions, such as unique copy "slants," new forms of campaigns, and display arrangements, of which we shall have more to say later.

Patents and copyrights are granted according to a provision of the Constitution which states that Congress shall have the power, "to promote the progress of science and useful arts by securing, for limited times, to authors and inventors the exclusive rights to their respective writings and discoveries." The idea of a patent is that when a new idea is incorporated into a mechanism or design the inventor, by securing a patent, is given the exclusive right to manufacture and sell the device for a specified, limited time.

Construction patents run for 17 years and then die. They may not be renewed. Design patents cover the invention of original and ornamental designs for articles of manufacture. They cover everything from rug and fabric designs to stoves, automobile hoods, wallpaper, buckles, printers' type, and underwear. They are issued for periods of 3½, 7, or 14 years, as the applicant may elect. Fees are in proportion to the length of time the patent runs. They are not subject to renewal or extension of time. An application made for 3½ years and granted may not subsequently be lengthened.

The fact that a patent gives the owner a monopoly of sale as well as of manufacture very greatly enlarges the importance of

patent rights to both wholesalers and retailers. However, damage suits against distributors have been infrequent.

Priority of the application and use of an idea is the basic consideration of ownership. Even though a patent has been issued, if another person has made use of the same idea for a longer time and has continued to use it, the ownership is his and the patent is noneffective. If the claimant has used the idea and abandoned it, then the rediscovery is valid and the patent will hold even against the first one who put the idea into use.

When a new invention, like the radio or phonograph, is given a name in an application for a patent, care should be used to adopt a name that differs from the one by which it will be generally known. When the phonograph was invented it was given that name in the patent application. Other talking machines were soon brought onto the market, but for the 17 years the patent was in effect they could not be called "phonographs." The Edison machine was at first known as "gramaphone." After the original patent expired the right to a monopoly of the name also expired, and all talking machines assumed the generic name of phonograph.

When Burroughs invented the adding machine, he patented it under the mouth-filling name of "arithmometer." With the expiration of patents that name became common property, but so far as the authors have been able to learn, there has never been a rush of competitors who wanted to call their machines "arithmometers." Meanwhile the trade-mark, Burroughs, has provided ample protection for the manufacturer.

Copyrights.—A copyright is similar to a patent in that it gives the owner a monopoly use of the form of the production which is covered by the copyright. Information as an addition to the general fund of knowledge is not subject to monopoly control by any process of law. The particular form in which ideas of an artistic or informative nature are presented may be protected from copy or infringement. For example, a table of vital statistics is subject to copyright. The information which that table carries is common property. Anyone may use it or publish material which it contains. The protection is against reproducing the same form. This protection extends to all translations into other languages. Again, any musician is privileged to compose and publish dance music suggestive of the smooth, rhythmic

flow of a river, but no one can use the exact cadence of "The Blue Danube," which is copyrighted.

Except with authors, moving-picture producers, theaters, and publishers, copyrights for books, plays, music, etc., have a limited application to business. In advertising and in preparing labels, the privileges of copyright may be valuable and far-reaching. List houses copyright their lists so that they can prevent resale, which is detected by adding key names and addresses. These would never get mail except when sent as part of the list. As with trade-marks, the law is simple, but its application is involved beyond the comprehension of the layman.

For most printed forms which fall under the classification of books, the process of securing a copyright is delightfully simple. On forms which may be secured on request from the Register of Copyrights, Washington, D. C., the applicant fills in blanks which describe the nature of the work and the country in which the typesetting, printing, and platemaking were done. The phrase copyright (date) by (owner) or the substitutes for this form provided by law must be imprinted on all the copies issued. Before the "books" go on sale or are otherwise distributed to the public, two copies must be sent to the Register of Copyrights together with the blanks, which have been filled in and acknowledged before a notary public, and the registration fee of $2.

In the cases where a copyright is refused, the notice is evidently erroneous and misleading, but nothing can be done about it. That is the way the government handles these matters. Obviously, the notice of copyright is not of itself evidence that a copyright exists.

Prints (pictures) which are drawn, painted, printed, etched, or photographed may be copyrighted. If they are to be used in advertising, they must not be attached to the merchandise or made a part of the label. Where a printed line would tend to mar the print, a "*c*" in a circle may be used to give notice of copyright.

Lectures, sermons, addresses, and similar productions prepared for oral delivery may be protected by copyright by depositing a single copy with the Register of Copyrights. This protects the owner from public recital of his production. However, a poem that has been copyrighted may be recited for a radio audi-

ence without conflicting with the law,[1] but to print a copyrighted poem or other literary composition in an advertisement would be a gross infringement. Copyright owners may give permission for the use of their material without invalidating their rights.

Copyrights for Labels and Advertisements.—Radio is yet too new for court decisions fully to establish the limits of copyrights in broadcasting. In general, the distinction may be made that it is an infringement to put on the air music, lectures, plays, and other forms of amusements or instruction intended to be given orally; whereas, copyrights covering printed material are not infringed by broadcasting.

There is a considerable vogue of copyrighting published advertisements. The process is the same as for any other forms of printing; for example, a rotogravure advertisement in a Sunday newspaper requires that two copies of the "complete publication" be filed with the application, this in addition to the publisher's copyright and all the other advertisements in the issue which are to be so protected.

The writer has known retail stores in San Francisco to "lift bodily" advertisements from the New York newspapers and substitute the name of the thief for that of the originator. The theft is recognized by many and the thief regarded with the ignominy he deserves. So far as injury of the one plagiarized is concerned, the authors have yet to find an instance where the infringement (which means theft) hurt the owner. Aside from pleasing the ego of the advertiser, or more likely of the advertising agent who prepared it, we have never discovered any worth-while advantages that came from this kind of "protection."

Copyrighting a label and an advertisement are far different. The label is copyrighted by the Patent Office, not by the Register of Copyrights. It must be attached to the article and describe it and it must have an original artistic or intellectual content. One or more colors may be used in combination and receive protection. So few labels are copyrighted that it is a distinction. Also it is a definite warning to would-be infringers. This, by the way, is the only protection available for a slogan. The cost of copyright for a label is $6.

[1] Philip Wittenberg, "The Protection and Marketing of Literary Property," Julian Messner, Inc.

Extent of Protection.—The term of life for a label copyright is the same as for other copyrights, 28 years, with privilege of renewal for the same period. The copyright offers a high degree of protection in that it covers both production and sale, and infringement may be stopped by injunction. Further, any printed material bearing the offending marks may be destroyed on court order. This is true also of printed and bound books. Suits for damage, however, usually bring little or no reward. In the first place, it is almost impossible to establish any definite amount of loss in court. In the second place, infringers and other thieves seldom have much financial responsibility, so that a judgment is difficult to collect.

Under the common law, one may protect his name and reputation even if he has sold his copyright interests. For example, the author of a book may sell his interest. The buyer may continue to publish it with the author's name, but he may not change it in a way that is displeasing to the author, such as issuing an abridged edition.

A copywriter's production belongs to his employer and may not be copyrighted except by the employer. that is, in the absence of any contract specifically reserving the production to specified purposes. Ed Wynn sold the rights to his humorous skits on the Texas Fire Chief program for publication. In litigation that ensued it was held that the proprietary rights to anything he said on the program belong to his employer, the Texas Oil Company. Cole Philips sold some paintings to Cluett, Peabody to use for illustrating car cards. When the buyer proposed to use them for magazine advertisements, Mr. Philips pointed out that that would be a violation of contract, which restricted their use to one purpose.

Trade-marks.—Although the subject of trade-marks comes up only at long intervals, except in the very largest companies, it is one of the most important parts of most manufacturing businesses. It is important to the sales department, to advertising, to production, and even at times to transportation. Trade-mark law is little understood by most practicing attorneys, and for that reason other officers of the company besides the attorney should diligently follow the uses and applications of the firm's identification marks, words, and symbols.

Trade-mark law is very simple, but its application becomes so involved as to baffle all but the specialist. However, the legal part of the trade-mark is no more important than the commercial. In both senses, the primary purpose is to identify the product which carries it and so to aid in selling. In a legal sense the protection is highly important, for it prevents dishonest competitors from palming off imitation products for the genuine. In a commercial sense, it enables the consumer readily and certainly to select her favored product. Attorneys who know the law seldom have a selling sense, and that is surely of as great importance as the legal technicalities, for it is to facilitate sales that trade-marks are used.

A trade-mark, as defined by the courts,

> . . . is a sign, mark, symbol, word or words which indicate the origin or ownership of an article—and which others have not the equal right to employ for the same purpose. In its strictest sense, it is applicable only to a vendable article of merchandise to which it is affixed.[1]

However, in actual practice the restriction is not so narrow. The familiar bell which is used so extensively by the Bell Telephone Company is an example. In that case it identifies an organized vendable service rather than a commodity.

An understanding of trade-marks is made more difficult by the loose use of other terms which sometimes mean the same thing. A trade name is one of these. "Vaseline" is a trade-mark and happens also to be the name by which the petroleum jelly put out by the Chesebrough Manufacturing Company is known in trade. The word "Ford" in script appears as a distinguishing mark on all automobiles and trucks put out by the Ford Motor Company; but it is only the script form, not the name, which constitutes the trade-mark. The winged horse of the Socony-Vacuum Oil Co., Inc., is its trade-mark. "Mobilgas" is another trade-mark of this firm. As the latter is a word and so can be spoken and is used as the name of one of the firm's products, it is called a trade name.

Trade Names.—It is difficult to define the term "trade name" because it is used in so many different senses. Besides the one just illustrated, it means the name or designation under which a firm does business. For example, Rogers Peet is the name of

[1] *Ball* v. *Broadway Bazaar*, N. Y. 1909.

a well-known clothing firm in New York. Neither word is the name of a man connected with the firm. The same is true of Prentice-Hall, the publishers. These are the names under which these firms *trade*, or carry on business. It is in this sense alone that the law takes cognizance of trade names.

Irish lace, Irish stew, castile soap, near seal, French ivory are all trade names. Irish lace is a kind of lace not necessarily made either by or for the Irish. Neither is it all made in Ireland. It is a name used for a product familiar in the dry-goods and notion trade; hence it is a trade name. Irish stew is a kind of meat and vegetable dish known in the hotel and restaurant business by that trade name. Castile soap supposedly is made of olive oil. It was named originally for the district in Spain where the olive oil was produced. Near seal is the name applied by the trade to rabbit fur—not very *near* seal. French ivory is a celluloid. It is evident that a trade name is sometimes used to conceal rather than to reveal the nature of the product. Too often a trade name has been one which the trade understood and used in a way to deceive the consumer; this has been especially true of the fur industry. In the case of registered trade-marks, the trade name is the name for a product which has been monopolized by the manufacturer. Any other soapmaker could copy Ivory soap. He could make a cake of soap the same in composition, color, size, and shape, but he could not call it "Ivory." On the other hand, anyone may use the word "ivory" for any purpose except as the name of a soap or other article of the same classification. In the strictest interpretation of the law, the authors could be held for infringing the trade-mark rights of the owners by reproducing their marks in this text without their consent.

What a Trade-mark Should Be.—It must not be forgotten that the primary purpose of a trade-mark is to identify a product or firm. When a woman enters a store and asks for Royal baking powder, she designates a common product, to be sure, but she also specifies that she wants the particular baking powder made by the Royal Baking Powder Company. The trade-mark enables her, first, to designate the particular make she desires, and, second, to recognize the product when she gets it. In order that a trade-mark may serve these two highly important purposes, it is well for it to have the following qualities:

1. It should be easy to pronounce. Hexylresorcinol is easily pronounced *after* one has learned how. It is forbidding to most people when first met. None of us like to expose our ignorance, and very many times a consumer will take some substitute article, as second choice, rather than run the danger of being laughed at. Royal, Corona, Lux, Old Dutch, G. E., and Jell-O are examples of names which everyone knows. Prophylactic was a sticker for a long time, but once learned it was remembered. Weyerhaeuser, Djer Kiss, Clicquot Club, Bon Ami, Glycothymoline, and Socony have encountered difficulties.

2. It should be easy to remember and recall. This is obvious —it needs no discussion; yet it is so important that other desirable qualities may be waived to achieve it. The Purina Company chose a mule with an iron kettle hanging to his tail for a stock food. The explanation for the unattractive selection was this: The product has its greatest sale in the South. An ignorant stable boy might forget the simplest word if he were sent to the store for it, but the densest would remember this picture.

3. It should be pertinent to the article. Old Dutch Cleanser is a good example. It is suggestive of the proverbial cleanliness of the Dutch. Angelus might be fine for a musical instrument, but for candy or a cathartic, it seems misapplied.

4. It should be of simple design. The trade-mark is often used on rough paper and in small space and is printed under difficulties. Therefore simplicity is a great asset.

5. It should give a pleasant suggestion. It is good psychology to make a product and its use seem agreeable and pleasant. This should apply to the wrapper, the package, the advertising, and, most of all, to the name and distinguishing marks. "Grime" has many qualifications as a good name for a soap; that is, it is a grime remover. The unpleasant associations which the word brings to mind would disqualify it for any product.

6. It should not be of a nature to go out of style. The Quaker of Quaker Oats fame, the Corticelli kitten and the Skinner satin Indian are types that continue unchanged. The old gentlemen with the flowing burnsides, however, was so strikingly at odds with the name of the Style Plus clothing he was supposed to represent that he has been retired. The kindly lady serving Baker's cocoa is so patently of a past generation that her continued usefulness is questionable.

7. It should be adaptable to a family of products. Often when the original trade-mark is selected no thought is given to other products which may be added later. Keen-cutter was a good name—though descriptive—for the edged tools which the Simmons Hardware Company were then manufacturing. But when hammers, squares, mauls, and other such products were added, Keen-cutter was not appropriate. Beech-Nut, although chosen specifically for hams and bacon, has proved admirably adapted to other food products and to chewing gum.

8. Above all things it should be distinctive. The Cudahy Packing Company, owner of the Old Dutch trade-mark, have had no trouble or expense in defending that ideal name and symbol. The same may be said of Bull Durham and many others. But the Coca-Cola Company has spent a great fortune in defending the name of its product from infringement. A volume of over three hundred pages has been published giving the history of this litigation, and, alas, the infringement suits continue. The National Biscuit Company has been almost as unfortunate, in defending their design, which so few can remember. The difference is largely, but not wholly, a matter of distinctiveness.

9. One negative requirement positively should not be overlooked. The trade-mark should be so chosen and applied that it will not become generic. Frigidaire, as used by the public, is the term to designate any electric refrigerator, not specifically the one made by the General Motors Corporation. Likewise Kodak is the public's general name for a portable camera, not alone the one made by the Eastman Kodak Company. Victrola is the name of any talking machine to the layman, not necessarily one made by the Victor Talking Machine Company. As for celluloid, a large majority of people do not know that it ever was one of the choice possessions of the American Celluloid Company. These words, which should designate and identify the products of their respective companies, have lost their ability to do so. It is not that the phrases are poorly adapted to use as trade-marks. On the contrary, those mentioned seem happy selections. The fault is in the advertising. Frigidaire should always have been followed by "refrigerator." If they had always been called Kodak cameras, as one might say Kodak film, or Kodak tripod, Kodak would still be Eastman's word. If Eversharp had been

used to indicate any mechanical pencil, it would long since have lost its usefulness. While it is Eversharp *pencil*, or Eversharp *pen*, it continues to serve the purpose of a trade-mark and a valuable one for the Wahl Company, the owner. Singer is no longer the exclusive property of the Singer Sewing Machine Company. It designates a style of sewing machine and anyone making that model may call it a singer. In the case of Mason's fruit jars, also a valuable trade-mark has been permitted to become a common name.

Growth of Corporation Parallels the Growth of Impersonality. There used to be a common saying that no one ever failed in advertising who had shown his face along with his product. Probably there is no more truth in that than in most general sweeping statements. However, examples of success are numerous. W. L. Douglas with his shoes; Gerhardt Mennen with his cosmetics; Gillette with his razor; Thomas A. Edison "the most photographed man that ever lived"; Father John and his liniment; P. T. Barnum and his show are a few that readily come to mind.

It is no longer considered really good taste for one to blazon his face so extensively. Besides, there is seldom much sales value in the photograph of a manufacturer. Certainly there was not, and is not, anything in the appearance of Mennen that would induce people to use his talcum powder, and the manufacturers are fading him out. While Douglas's picture fitted in with his particular kind of advertising, it really limited his copy to one general style. Edison was so well known, so highly respected, and besides so good looking that either his name or his face, when associated with a product, gave it prestige.

The use of the family name has been of much wider use and of a greater degree of success. In the automobile field there are Ford, Buick, Nash, Hudson, Rolls-Royce, Chrysler, Chevrolet, and Oldsmobile (R. E. Olds), which have successfully carried the name of the inventor or maker. Others are Swift, Armour, Hershey, Morris, Colgate, Cudahy, Lipton, Procter & Gamble, Heinz, Post, John Wanamaker, Kellogg, Marshall Field, Singer of sewing-machine fame, and many, many more who have become nationally and internationally known. Great stores have quite generally borne the name of an individual. Railroads have not. More often they have been named for a comparatively obscure

town which would be unknown otherwise. The Burlington, "Soo," Santa Fe, and Wabash are examples.

The psychology seems to be that the name of an individual helps to fix responsibility. Perhaps the same, at one time, was true of the proprietor's photograph.

Autographs of individuals have proved generally successful, such as Kellogg, Ford, (at least it has the form of a signature), Borden, and C. H. Fletcher of Castoria fame are a few. Individual names are open to the objection that so many persons have the same or similar names, and each person has the inalienable right to attach his name to the product that he has produced. If 50 John Smiths make razor blades, each under his own name, or 100 Abraham Cohens make men's socks, all under their signatures, much confusion would result. While each firm was small and restricted its business to local territory, there might not be much conflict; but even if two in each group aspire to cover the national market, litigation is sure to develop.

Other Sources of Names.—Trade-marks have been devised in many ways. Some manufacturers have resorted to invention: Lux, Lysol, Uneeda, Nujol, Kodak, Karo, Crisco, Yuban, Mazola. Others have chosen common words suggestive of some quality or use of the product: Holeproof, Everwear, Ivory, Sunsweet, Sunkist, Sun-Maid, Jell-O, Sunshine, Beech-Nut.

Initials of the words which make up the firm's name have yielded the following: Armco, Socony, Nabisco, Texaco, Sunoco.

Then there is the lazy, unimaginative way of selecting some common word of general meaning and applying it to products in such a way that it could not be called descriptive: Onyx, Acme, Standard, Best, Royal, Perfection, Premium, Superior, Crown, Top-notch—these are used for merchandise of various sorts.

A great many trade-marks have interesting histories, but, as advertising men come to know their business better, there are fewer romances of this nature. Public contests to select names are not so popular as they once were. The great trouble was that the public had an erroneous idea of the limitations of a trade-mark. Most of those submitted were either descriptive of or founded upon the name of one of the ingredients, which made them ineligible. A more recent practice is to submit the product to an advertising class (or classes) in college and offer a prize for the best name. Then the contestants know what is,

and what is not, appropriate, and while their entries may lack originality they will be technically admissible. Frequently the list submitted is highly pleasing.

Another resultful way of getting a trade-mark is to ask an advertising agency to submit 50 from which to select. Occasionally the right name seems obvious and is adopted so informally that three years afterwards it is difficult to trace the source.

One Brand or Many.—A blanket brand (such as the "G. E." in a circle for the General Electric Company; "S" in a circle for Swift & Company; the "57" of the H. J. Heinz Co., and the Dutch boy of the National Lead Co.,) performs the bare identification of the source of the products it represents. It is evident that the blanket brand does not lend itself to the same degree of aggressive selling as more highly individualized brands. For example, compare the blanket brand of Swift to Silverleaf, the name of their lard. The latter is so individualized that it can be presented with a stronger personal appeal than the abstract symbol of the "S" in the circle.

The term "fighting brand" is used for the identification mark when there is a price war and the standard product is temporarily withdrawn from the district where price cutting runs rampant. Dr. Price's baking powder is a brand owned by the Royal Baking Powder Co. It is the same, or practically the same, as Royal. In case a price war develops, it is the practice of the company to retire Royal, rather than to take a chance of demoralizing the market with unwarranted price reductions. Then Dr. Price's baking powder is offered in its place, and no restrictions are made on resale prices. When the market resumes its normal status, salesmen no longer offer the substitute, but advise customers that "Royal is now available."

Automobile tires and breakfast foods are other products which have employed fighting brands, not infrequently for a product of lower quality. With the fair-trade laws in effect, and with the FTC and Better Business Bureaus constantly warring on unfair trade practices, and particularly on untruthful advertising, the fighting brand is disappearing. There is not the excuse for it that formerly existed.

It is a difficult matter to draw the line on the number of trade-marks that are advantageous. Beech-Nut, Campbell's soup, the leading watch manufacturers, Kellogg, and many others have

been highly successful with one. Procter & Gamble have several and are still adding new ones with new products. They brought out Crisco and P & G white laundry soap about the same time. It was thought to be highly desirable to build up an identity for Crisco unconnected with Ivory soap. Great as was the prestige of this manufacturer, it was thought that the firm name on a food product might suggest that it was a by-product of soap. This would have been disadvantageous; so the manufacturer's name was omitted, which seems reasonable. In the case of the laundry soap, it might have been easily possible to take advantage of the universal favor that Ivory enjoyed to popularize another but different soap. The firm preferred to give the laundry product a new name but to connect it closely with the firm's name, hence P & G. More recent products have been given other names, as Camay, a toilet soap, and Teel, a dentifrice. Ivory Flakes, however, was a name used to connect the product with the popular Ivory soap.

The points to bear in mind are as follows:

1. It costs a very great deal of money to get 30 million families to learn a new name. Obviously, it is advantageous to make the acquaintance with the new identification mark as easy as possible.

2. Products that tend to be antagonistic should not be herded together under a family name. It would be ridiculous for Swift & Company to extend their very good name for lard—Silverleaf—to glue or their packaged fertilizer. It would not help either of the latter and might do the former irreparable harm.

Legal Protection of Trade-marks.—Common law protects each of us from infringement of the name we were given at our birth or any trade name that we assume in our business. Furthermore, if we adopt a distinguishing mark for the product we make, we have protection against those who would copy it or imitate it. The process of legal protection includes the issue of writs of injunction against infringement. This involves establishing ownership. Ownership here means priority of adoption and continuous use. These are facts which are often difficult to establish in a court of law. In addition, the common law is always inferior to enacted statutes and is of local application. An injunction granted in Williams County may not be operative in the adjoining county of Paulding. So the infringer may escape the pro-

visions of a writ of injunction by moving to the next county, or, at most, to a neighboring state.

In any case, the one who asks a court to grant relief from such an unfair trade practice as imitating a trade-mark must be sure that he is not guilty of unfair trade practices. In the language of the law, one who asks for equity must come into court with clean hands, which is another way of saying the same thing. A very palpable case of infringement was thrown out of court because the plaintiff was making an untrue representation of the origin of his product. This was more or less accidental, was wholly irrelevant to the case under consideration, and in no way influenced the business of the infringer. Yet the infringer escaped the consequences of his fraudulent practices, because the one he was injuring had been guilty of untruthful advertising.

In another case, the firm asking for relief from infringement had been guilty of misstating the age of its business life in its advertising. When this was shown in court the complaint against the infringer was withdrawn, although age had nothing at all to do with the case. It is true, however, that in cases of this kind, the misdeed complained of can be corrected and then the complainant can be purged of unclean hands—in court language— that is, if the advertising in each of these cases were corrected and the correction continued for a reasonable time, then the plaintiff may renew his request for relief against infringement.

Most protection is found by registering the trade-mark preferably with the Federal government or with the state, or both. The state registrations are not uniform, some being more definitely helpful than others. It is the Federal protection that is of real value. States which have enacted trade-mark laws have sought to give protection to the owner in addition to that provided by the Federal laws. State statutes may not modify or change the acts of Congress.

With trade-marks, as with patents, registration is presumptive evidence of ownership; that is, registration puts the burden of proof upon the plaintiff. Priority of adoption and continuity of use determines ownership, regardless of registration.

Advantages of Registration.—In practice, however, the registration of a trade-mark virtually establishes ownership. Where litigation arises, almost without exception the firm which has established presumptive ownership by registering its trade-mark

is the one to claim damage because of infringement. Registration definitely fixes the date of adoption and use. Those who might have had a legitimate complaint were given notice in a general way by publication of the proposed trade-mark in the *Patent Office Gazette* for three weeks before it was accepted for registration. Of course no one who is not a patent attorney would regularly see that publication. It is presumed, however, that a firm in active business would discover a competing trade-mark similar to the one it uses before the infringment had been given much publicity.

The very act of registration gives Federal courts jurisdiction regardless of the amount involved. One Federal court order covers the whole country, and an infringer gains nothing by moving to a new location. If actual damage can be shown, the court will award damages to three times the amount specifically proved. This is called "punitive damages." In addition to that, a writ will be issued directing an officer of the law to go to the place of the infringer and take away all the materials, including goods, which bear the offending mark and destroy them. A bonfire of goods and advertising matter before the door of the infringer has had a salutory effect in numerous instances of fraudulent imitation.

Another important advantage of registration is that, except in a few instances, a trade-mark must be registered at home before it can be registered in a foreign country. In most of the Latin countries trade-marks are owned by the one who registers them. He may not have originated the mark and may never have used it, but the fact that he has paid the registration fee makes him the owner. Subsequently, goods imported which bear those marks are confiscated and the importer is subject to fine or imprisonment unless the owner first settles with the one who has stolen the emblem. One trade-mark pirate registered all the names of American automobiles that he could find in current magazines. The automobile manufacturers had to buy back their own trade-marks before they could ship any cars into that country.

Requirements for Registration.—In order to qualify for registration a trade-mark must meet the following requirements:

1. It must be distinctive. This means that it must not closely resemble another trade-mark used for the same class of goods.

There were 52 different classes of goods when the authors last consulted with the Patent Office. In theory, at least, the same trade-mark might be registered for each class. Some words, such as Premium, occur again and again. There are, for instance, Premium bacon, Premium pens, Premium pocketknives, Premium shirts, and Premium glue. The recent practice, however, is to restrict the use of a mark, if it is likely to lead to confusion of ownership, even if the class of goods is different.

2. The trade-mark must be attached to the goods which it identifies. In the case of fabrics, liquids, eyeglasses, and many others, this may be difficult but it is required. The ingenuity of the owner must not fail.

3. Merchandise must be sold outside the state where it is produced if the trade-mark it carries is to be registered in the U. S. Patent Office.

4. The trade-mark must be truthful. A trade-mark or symbol will not be registered if directly or indirectly it states or infers an untruth.

Formerly a requirement for registration was that the mark had not been registered for the same class of goods previously. This involved so much research and was so at variance with the rules pertaining to abandonment that it is no longer required that the trade-mark be new. If a firm omits its trade-mark from goods on which it has been accustomed to appear, by so doing the firm abandons its rights. In such cases anyone else may adopt the mark and hold it even against its former owner. Continuous use is necessary to defend ownership rights.

It may be observed that some trade-marks widely used and bearing the statement "Reg. U. S. Patent Office" do not wholly conform either to the above requirements or to the negative provisions which follow in the next paragraph. The explanation is that when the basic act was passed by the Congress in 1915, it was provided that any trade-mark which had been in continuous use for 10 years prior to its enactment might be registered regardless of its lack of conformity to the provisions of the act. Presumably the same condition still applies; that is, a trade-mark which was used in interstate trade in 1905 and has continued might still be registered even though it did not comply with the provisions of the fundamental law.

What Trade-marks May Not Be.—The Patent Office is authorized by law to make rules governing the registration of trade-

marks. These rules are seldom altered in any basic particular except at the order of Congress or a competent court. However, they have been subject to literal interpretation under some supervisors and too loose interpretation by others, so that the rulings have fallen short of strict uniformity. The following disqualifications generally apply, and registration is refused a trade-mark if it exhibits them:

1. A trade-mark must not resemble another already registered for the same classification of goods or goods having some of the same characteristics as those bearing the trade-mark. Skookum might conceivably be accepted for men's collars and ties, for shoes, or for stationery. It would not be acceptable for a food product because the owners use it for apples and other fruits. Would confusion arise over the origin of a product so labeled? This is the question which determines availability.

2. A geographical name may not be registered. There are a few exceptions to this rule, an example of which is Palm Beach. This was registered for a light fabric on the ground that it would be taken to indicate suitability for Palm Beach wear, and not to indicate the place of origin.

3. The name of an individual may not be registered unless it is in a distinctive form, and only for that form. The script of Ford is an example.

4. A trade-mark must not be used in an unlawful business. No trade-mark would be accepted for smuggled goods or for unlicensed narcotics.

5. A picture of a living person will not be registered unless the application is accompanied by his written consent.

6. Words or devices descriptive of the goods are not accepted for registration. These are undesirable, even if they were acceptable. Neverust was held not to be infringed when a competing manufacturer advertised his screens as the never rust kind. He had a right to say they would never rust if it were true.

7. The insignia, flags, coats of arms, and emblems of sovereign states, political divisions of a state or country, churches, institutions of learning, and fraternal organizations are not accepted for registration. It would not be unlawful to use the flag of a foreign country as a trade-mark in most states, but it could not be registered. On the other hand, the use of the flag and other insignia of the United States is forbidden in all private advertising by state enactments.

8. A distinguishing mark which is immoral or scandalous in itself or any mark used for a product which is injurious, like opium, cannot be registered.

9. A trade-mark must not be deceptive in any particular, as it affects the public. It is the effect upon consumers that is the determining factor. To plead that the trade understands the term is no defense if the public does not understand it.

Other Means of Protection.—In addition to voluminous legislation to protect business from fraud, theft, arson, forgery, and trespass, there are several other sources of police power and authorized commissions which can regulate trade. Some of these are discussed in Chap. XIV. The honest advertiser is protected from illegitimate competition in that fraudulent advertisements may not be sent through the United States mails. Dishonest weights and measures are everywhere illegal and their use incurs the penalty of the law. This is a protection for the honest merchant as well as consumers. An honest advertiser is put to a serious disadvantage when his offerings come into competition with the unscrupulous and deceptive advertisement of a competitor. Such advertising is unlawful, as shown in Chap. XXI; if used in interstate business it is subject to censure by the FTC, which can issue a cease-and-desist order similar in effect to the court injunction.

It was the original purpose of the law establishing the FTC to provide a tribunal with adequate power to handle unfair trade practices not adequately prevented by existing laws. Inducing cancellation of contracts, commercial bribery, selling below cost to injure or ruin a competitor are some of the unfair trade practices which have been brought before the Commission. Imitating labels and giving excessive discounts to large purchasers are others. In the famous Goodyear-Sears Roebuck case the issue was excessive discounts, and an order was handed down directing the manufacturer to cease and desist from selling to the mail-order house at so great a differential. The authors are not in sympathy with this particular ruling, which the courts have annulled, but it illustrates the power of the FTC and the type of complaints it handles.

It is not necessary to employ an attorney in order to bring a case to the attention of the FTC. A careful explanation written by a layman may be sufficient to start action. So far the Con-

gress has never given the FTC the authority to decide in advance just what unfair trade practices consist of. Rather the pattern of the Sherman law has been followed, which makes the creation and maintenance of a monopoly unlawful, but does not specifically define "monopoly." It is left in each case for a court to decide.

The above is a conspicuous example of the American way of legislating. A jury can decide if a monopoly has been maintained, but not what in another case would be a monopoly; for if the FTC, or any other group, were permitted to establish definitions and rules which amount to law, they would be acting as legislators, which they are not. Legislative action by an appointed body is the essence of personal tyranny; that is, one may be held guilty for an act, when there was no law prohibiting it at the time. The difference may seem to be very narrow in some instances, but the principle is both basic and profound.

Property Rights in Trade-marks. Both patents and copyrights, as already stated, are forms of property. They may be bought and sold, assigned, and even mortgaged. But this is not true of trade-marks. They can neither be bought, sold, nor rented. In and by themselves they are not property. When a business is sold, the rights to trade-marks do not go with it except by definite, written provision. As part of and representing the good will of a business, the right to the trade-marks may be acquired by purchase, but only in connection with the transfer of the business in which they have been used.

The reason for this is founded in good logic. A trade-mark is a means of identifying a product as coming from a definite source. Silverleaf lard is lard made and packed by Swift & Company. Now if Swift & Company were to permit another firm to use Silverleaf as a trade-mark for either lard or another similar product, as butter, the public would be misled. The consumer now buys Silverleaf lard knowing it to be a Swift product. If any other firm were allowed to use that term, it would lose all meaning. It would no longer identify a product, which is its principal purpose.

So the loose talk one so commonly hears about the vast amounts invested in trade-marks is a fiction. If the statement has any definite meaning, it is that the good will of the business is great and the trade-mark is a symbol of that good will. The

value of a good name is illustrated by a story told of General Robert E. Lee. The officers of a life insurance company went to General Lee and asked if they could arrange to use his name for their company. There had been so many failures of these institutions, and withal so much fraud, that public confidence was badly shaken, and something to promote assurance had come to be a necessity. It was thought that the great prestige of the name and the known personal integrity of the man would provide the much-needed public confidence. A quarter of a million dollars in cash and an interest in the company were offered for the use of his name.

"Is my name so valuable as that?" inquired the general with frank surprise.

"That is a great sum of money, with much more to come if you accept, but we believe it is worth the money or we would not make the offer," was the answer.

"Well," meditated General Lee, "if my name is so valuable as that, don't you think that I should be very careful how I allow it to be used?" He refused the offer and died with far less than the sale would have provided.

Should a valuable trade-mark be treated with less care?

Common-law Protection of Ideas.—For many years it was regarded as impossible under existing law to protect ideas. With the development of advertising and the more general recognition of the value of a good selling idea, courts have come to recognize a property right in an idea and have granted substantial sums as compensation for ideas which have been illegally appropriated.

One of the first—perhaps the first—verdicts carrying damages for appropriating another's ideas without compensation was the *Gray Advertising Service* v. *Ybry, Inc.*[1] According to the agency's complaint, it was to act as advertising agent if the general plan which it had submitted was approved, and $40,000 was to be spent for the advertising. The agency was never officially appointed to handle the account, but, it was alleged in the complaint, an advertisement appeared in a publication known as the *Paris Comet*, published in Paris, France, which embodied the photographs and ideas it had submitted. The complaint charged that this advertisement was inserted by Ybry, Inc. These allegations were denied by Ybry, but the court found in favor

[1] *Printers' Ink*, Feb. 19, 1931, p. 104.

of the advertising agency and awarded the agency $3,000 and costs.

Numerous similar cases have been tried and damages awarded varying from $400 to $6,500. Other cases have been settled out of court by the payment of substantial sums. The problem has two sides. That of the author of the idea has just been discussed. Now it has become necessary for advertisers, and especially for advertising agents, to protect themselves against what might easily deteriorate into a racket by those who are ingenious and dishonest. *Printers' Ink* employed Attorney I. W. Diggs of the New York bar to make an analysis and suggestions which provide protection. The following has been condensed from that published report.

Thus it would appear that the creator of an artistic work possessed, and still possesses, a common law right in his work entirely apart from the right accorded him under the copyright statutes. This common law right, however, exists only when certain definite requirements have been satisfied. In order to understand these limitations, which otherwise might appear arbitrary and capricious, one must bear in mind the historical development of this common law right and recall that it started as property right similar in nature and effect to a property right in a piece of land or a chattel. An owner of any form of property may alienate part or all of his interest in it in one of several ways. He can sell or hypothecate the property, or he can abandon it.[1]

The following questions and answers were included as a part of the report:

Q. If an agency has an idea submitted to it without the knowledge of the advertiser and a year or so later uses that idea without compensation to the originator and still without the knowledge of the advertiser, is the agency or the advertiser liable? If the agency is liable and cannot pay is the advertiser liable?

A. Both the advertiser and the agency would be liable in this instance. Recovery by the plaintiff against one would bar further suit by him against the other. When an agent, working in the employment of his principal and acting within the apparent scope of his authority, commits a wrong, he is liable as the wrongdoer, and the principal is liable on the well-

[1] *Printers' Ink*, Aug. 8, 1935, p. 10, and Nov. 21, 1935, p. 15.

known principle of *respondeat superior*. (Broadly, let the master answer for his servant's wrong.) Since it would appear to be within the scope of an advertising agent's authority to examine advertising suggestions for his principal, wrong done while acting within the scope of that employment probably would render the advertiser liable. If damages were recovered against the advertiser, in this case, he would have a separate action against the agency for the losses thus sustained, since such damage was due to its wrong. Thus, it will be noticed, the indemnity provision mentioned in the body of this article is little more than declaratory of a right which exists in law.

Q. Is there any other method whereby the advertiser can obtain protection through the agency than by the indemnity clause?

A. Yes. The agency may, by contract, agree to take out insurance against such loss as is herein discussed, naming the advertiser as assured and beneficiary.

Q. If an agency takes out insurance to protect itself and its clients from suits on ideas, can this insurance cover all the clients of an agency, or must specific insurance issue for each?

A. The necessity for specific insurance policies can be avoided by having the agency insured against all claims and losses which it may have to pay to advertisers. Thus, the practical effect is that an advertiser who has been damaged files his claims against the agency which, after paying it, may then recover from the insurance company. This, however, is more a matter of insurance law than of "idea" suits.

Q. Is it possible and practical for an advertiser to take out insurance protecting himself against such suits?

A. Yes. This is both possible and practical. He must be very careful, however, that such a policy covers all contingencies.

Q. Can the advertiser, or agency, use a release which the submitter of an idea may be required to sign?

A. Such a release is very desirable from the point of view of both the advertiser and the agency. As a practical matter, however, it does not seem likely that a submitter would so readily abandon all right to his creation. Further, the release, if *not made for consideration*, would be revocable.

Q. Does a verbal offer of an idea give rise to a contract? Is it necessary that witnesses be present?

A. A verbal offer, if accepted, becomes a binding contract. The presence of witnesses is not necessary to the existence of a valid contract, but their testimony is very valuable in proving that an oral contract was made.

Q. How long do property rights in an idea hold? Is there any statute of limitations?

A. There is no definite period of time. The statute of limitations is of no aid in this matter, for it commences to run only after a wrong has been committed. In other words, the effect of such a statute is to limit the time in which a plaintiff may bring action after the wrongful act has been done. In our case, no wrong is committed until the idea has been wrongfully appropriated. Thus, the question of how long the right to literary property lasts is left unanswered. The question really to be decided by the jury is whether the defendant has copied the material of the plaintiff or whether he has merely arrived at a similar creation independently. If the time between the submission and the use is so great that the jury is certain the defendant has forgotten the original suggestion, there can be no recovery against him. In deciding this important question, the element of time is a factual circumstance of great weight.

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CHAPTER XI

Private Brand Competition

What Is a Private Brand?—A private brand is a trade-mark owned and controlled by a distributor, or middleman, as contrasted with "manufacturer's," "mill," or "national" brands. However, the line between them is not sharply drawn, a fact which is illustrated by the following incidents. A large wholesale and retail distributor of hose and underwear sold the whole output of a fabricator under his own brand. Aggressive selling and advertising soon increased the distributor's business to the point where he was required to look for new sources of supply, although he continued to sell for his first manufacturer. Not finding a factory which could, or would, supply the needed merchandise he bought a knitting mill and proceeded to make a line of products similar to those already bearing his brand. The use of the brand was extended to the goods produced in the new mill. Here is a brand at one and the same time being a manufacturer's and a distributor's brand. It is a private brand on the goods that come from the original mill; it is a manufacturer's brand when applied to the products of the owned factory. This is by no means an isolated case.

The term "private brand" is also applied to brands controlled by chains and department stores, although with unit stores the trade-mark is sometimes called a "store label" One cigar manufacturer has built up a considerable business by supplying cigars to clubs to be sold under their own names, as the Advertising Club, the Country Club, the Beach Club, or, more specifically, the Elks Club, or the Wooley Club. As the quality is the same, visitors at the various clubs can select a cigar with assurance by

the simple means of taking one named for the club, another form of private brand.

The law in a general way protects goods bearing a trade-mark as they thread the channels of distribution to the consumer. While a wholesaler or retailer may remove the manufacturer's brand and place his label in its place, the middleman may not alter the goods and continue to sell them under the manufacturer's trade-mark. To dilute such products as Listerine, Coca-Cola, Lipton's tea, or Burnett's extracts and still sell them as genuine, would be a fraud. This protection does not extend to the fixing of prices, except as provision is made under the fair-trade laws.

It has been contended that, while the article itself belongs to the merchant, the trade-mark which it bears is the property of the manufacturer. When and if ruthless price cutting tends to rob the article of prestige, or to lessen it in the eyes of either the trade or the consumer, then the brand is being injured. Neither wholesaler nor retailer has a right by price cutting, or otherwise, to injure the good will of the manufacturer. This reasoning seems to the authors to be sound.

The large question which arises is this: When, if ever, does cutting the price of a branded item of merchandise lessen its prestige or limit its sale? The authors have sought vainly, over a period of many years, to find any product that has been injured in prestige by being placed in the hands of consumers at a low price. Neither have the authors found an authenticated case of a manufacturer being permanently injured by having his products sold to consumers at a low price. Quite the contrary, the less it costs to distribute merchandise, the better it is for the one who produces it.

Advantages of Private Brands to Manufacturers.—Often it is a great advantage to a manufacturer to be able to sell his output to a distributor who will take it all, resell it, and pay promptly. The hosiery and underwear manufacturer mentioned above is a case in point. He maintained no salesforce and no credit department, operated on a minimum of capital, and had no losses from bad accounts. Indeed, the arrangement was so satisfactory that the manufacturer put up $50,000 a year to be used in advertising the goods under the private brand of the distributor. He could well afford to. It was his single item of sales expense.

As mentioned before, there is no logic in the circumstances that require a manufacturer to be a marketer. His business is to produce goods. In contrast, the wholesaler, retailer, and all the other middlemen are salesmen. It is their business to sell goods, not to make them. It was the lack of foresight, of imagination, and even of enterprise of the middlemen that forced the one who produced goods to go out and create a market for them.

The manufacturer is fortunate when he can find one or more distributors who will take his output off his hands and sell it efficiently. The Cleveland Metal Products Company is an example. It made many items, among which was an oil stove built for one of the major oil companies. This stove was designed by the distributor, the oil company, and made to his order. It was sold under the distributor's name as the Perfection oil heater. When sales tended to slacken, the manufacturer put on an advertising campaign to consumers. When the interests of the oil company changed and it no longer pushed the sale of the Perfection stove, the manufacturer bought the good will and name, which was adopted by the firm as the Perfection Stove Company. The occurrence shows some of the advantages and some of the limitations of selling through distributor's brands. This incident was also mentioned when discussing Exclusive Agents' Cooperation.

Some manufacturers sell both ways. One of the largest manufacturers of fine shoes has a widely advertised and popular brand. It also makes shoes for some of the leading shoe stores, which are sold under the store's label. This increases volume and so tends to reduce overhead. Further, as the stores contract well in advance of delivery dates, it provides a means of equalizing the factory operations, and, as these stores are primarily interested in a first-class article, they are willing to pay prices that permit profitable operation.

A certain aluminum company sells all its seconds for distribution under private brands. This does not demoralize the market for the best products nor force the firm into a two-quality product, which is so often confusing.

Disadvantages of Private Brands of Manufacturers.—That, unfortunately, is only one side of the picture. It is obvious that, when a manufacturer turns over his whole output to another for

sale, he loses all touch with his market. As the years go by, he creates no consumer good will and continually labors under the limitations of his distributors. An example is the Mohawk Rug Company. For years it sold its whole product to a firm which, in addition to its stores in New York and San Francisco, is one of the leading wholesale rug houses. As the rugs were all sold under the firm's brand, the manufacturer was unknown both to the trade and to consumers. Each time the contract was renewed new requirements were placed in it, which cut the manufacturer's profits, caused him extra trouble and expense, and otherwise made his life miserable. Finally, it reached the point that the distributor did not even consult the factory about the new contract, merely wrote it up with new exacting terms, then mailed it to the manufacturer to sign. It was quite as high-handed as a ukase from the Axis Powers.

The manufacturer was helpless. He had no brand, was unknown to the trade, and had absolutely no market on which he could rely. He signed the galling document and returned it, making a solemn vow to himself that when that contract expired he would not be so helpless. After careful preparation, an extensive consumer-and trade-advertising campaign was started. This entailed heavy costs, as all sales had to be made through the distributor. At the expiration of the contract the Mohawk Company was ready to do its own selling. Fortunately for the distributor, one of the largest rug manufacturers, who had always disposed of his products by the antiquated semiannual auction method, was ready to enter into a contract for the sale of at least a part of his products.

Another case was that of Fayette R. Plumb, manufacturer of carpenters' tools. Each wholesale hardware company wanted its own brands and own designs. This resulted in a multiplicity of specifications, which required over 100 different styles of nail hammers, to cite one example. Other items were equally and needlessly vexatious. It made quantity production, with its many economies, impossible. This manufacturer selected the best of the tools he had been making, started advertising them aggressively, and refused to accept any more orders to be put out under private brands. He lost many customers but made money on the goods which he did put out. The black heads and red handles of his tools were his trade-mark. It is one of the few

instances in which color combinations have been accepted for registration at the Patent Office.

In the case of private-brand merchandise the ultimate consumer is in no sense the manufacturer's customer. As consumers follow the brand, they will continue with its owner, however often he changes the sources of supply. The manufacturer has to look to his few distributors to take his whole output. If he has only one and loses him, he may be ruined. It is practically impossible for him to expand his business, and such orders as he does get are dictated by the buyer.

Adding new distributors may be a partial answer, but it is much more difficult for a manufacturer to secure private-brand business than to make sales of his own brand of merchandise.

Private Brands and Their Owners.—As the manufacturer, the distributor has both advantages and disadvantages in owning his brands. He becomes responsible for the performance of the product without being able to dictate how it shall be made, except by general specifications. After building up a demand he may lose his source of supply. A wholesale paper company put out a writing paper in nine different colors. It was a good article, the colors were popular, and business grew. But when the business slump came, the mill which had supplied this paper went into bankruptcy and was closed. Many other mills bid for the business, but none of them could match either the paper or the colors. Shipments were refused and returned; old customers quit buying; complaints mounted; and adjustments were demanded. The troubles were so numerous, in addition to bad business conditions, that the wholesaler also went into a receivership, primarily because of the failure of the manufacturer.

The fact that the FTC is unfriendly to private brands, especially when they come into competition with the manufacturer's brand, is at least a hazard. Sears Roebuck were forced to seek a new source of supply when the cease-and-desist order was given to the Goodyear Tire & Rubber Co., Inc. compelling them to discontinue sales on the old terms. This meant either establishing a factory to produce the well-established brands of this distributor or dividing up the business among several small factories. It is evident that the latter procedure was a hardship when a uniformity of quality was so imperative. That the FTC's order was set aside by the courts some five years later may have been

some consolation, but it did not reimburse either the Goodyear Tire & Rubber Co., Inc. or Sears Roebuck for their losses caused by the order.

The simple truth is that distributors are not manufacturers by tradition or training. They should stick to their selling. A few years ago both Montgomery Ward and Sears Roebuck started taking over small factories which had been providing them merchandise on contract. They soon found that they could not supervise and operate these manufacturing plants as efficiently as the original owners, so both changed policies and resumed purchasing on contract.

Private Brands That Prosper.—To infer that private brands cannot be made to succeed would be a serious error. There are some private brands that dominate the markets in which they are sold—at least they outsell competing manufacturers' brands. White Rose, Richelieu, Ferndale, Monarch, and Royal Scarlet are some of them. Knox gelatine for many years after it had become a household word was manufactured on contract. The private-brand automobile tires of Sears Roebuck and Montgomery Ward have a wider market than some of those made by the smaller tire companies.

When a great department store, an extensive wholesaler, or a chain store goes to a manufacturer with specifications, orders goods prepared in the way it has found them to be most serviceable, and then follows up and inspects the manufacturing processes to see that they are according to specifications, the buyer is the one who sponsors the goods. As an example, consider one of the largest food and liquor wholesale houses. It has had some of the leading brands of canned fruits and vegetables for years. No single cannery could supply this wholesaler's requirements Contracts are made with reliable canneries in different parts of the country for the items and the quantities that each can best supply. The whole procedure is under the inspection and general supervision of the buyer. It is his brand that is to be placed on this merchandise, and he sees to it that it is up to grade—every can of it.

Compare that with the Blank Wholesale Grocery Company It also maintains private brands, but under widely different conditions. It asks for bids for a designated number of cases of canned tomatoes, peas, corn, and beans. The lowest bidder gets

the order, and the wholesaler sends him the labels to be attached. If there is much complaint and some returns because of poor quality, the next year a new label is provided, but the old process goes on.

It is the claim of most owners of private brands that merchandise sold under them produces more profit than the national brands; that is, they can be given a wider margin. Both businessmen and students sometimes forget that margin and profit are far from being synonymous. Margin is the difference between cost and selling price; profit is the amount that has been added to net assets at the end of the year. Do the long-margin worshippers ever stop to analyze just how private brands can be bought for less than known manufacturers' brands? Can the factories who sell them operate more skillfully and produce goods at lower cost than Heinz, Campbell's soup, or Van Camp? The answer is most assuredly "no," for like quality. Can the combined efforts of the manufacturer, wholesaler, and retailer sell an unknown brand at less expense than is required when the manufacturer is an extensive advertiser and lends the prestige of his name and the results of his sales campaigns to aid distributors? In rare cases it is possible that wholesalers and retailers can advertise and sell goods at less expense than the manufacturer, but such instances are few. If it were true, the hundreds of millions of dollars manufacturers now spend for advertising would soon be turned into other channels. The day has gone by when wholesalers and retailers might have taken over the whole selling job. It is too firmly fixed and too skillfully done to be discontinued.

Why Private Brands Find Favor.—There are other advantages than wide margin in private brands. The wholesaler who has several well-established brands finds it easier to hold his customers than when he depends primarily on manufacturer's brands. The wholesale house handling Monarch coffee can hold its grocer customers, just as they can hold their consumer customers. Monarch is restricted in sale. No other sources of supply are available. This is seldom if ever true of a national brand item of general use. Where the product has been advertised to everybody, then everybody should have an opportunity to buy it. Restricted distribution is a limitation to profits. In the case of private brands, distribution is seldom if ever national, and the

advertising is frequently done by the retailers; therefore restricted distribution is common.

It is a well-known fact that wholesalers, especially in the grocery field, help to finance the retailers. When a retailer gets into debt so heavily to his source of supply that he can no longer take his cash discount and is compelled to ask for extension of time, then the wholesaler can dictate what he is to buy. In the trade it is a common requirement that from 50 to 70 per cent of the retailer's stock must be of goods which bear the wholesaler's labels, or, lacking that, which are supplied by the principal creditor.

It is an advantage for the wholesaler to operate in this way rather than to own the store outright, for, while something may be lost in poor management, when the one who has been "running" the store gets discouraged, another ambitious to be a merchant in his own right can be found with a few hundred dollars to take the business over. The new owner will often work 10 or 12 hours a day, as did his predecessor, whereas a hired manager would not expect to be on the job more than about 8 hours. The owner may take only $15 or $18 for himself at the end of the week, while a paid manager would be paid from $25 to $40.

There are literally thousands of independent stores which are operated on such a slim margin that they have to accept the dictation of the wholesalers who supply them. It is certainly in a limited sense that they can be called "independent."

When a salesman of a wholesaler who handles national brands primarily changes to a competing firm he may take a considerable amount of business with him, but if the sales have been largely of brands owned by his employer, such a transfer of business is not likely. So with institutions like the chain stores. The store manager is not able to set up for himself and take old customers with him, as he cannot secure the brands they customarily buy. This, of course, assumes that the quality of the private brand is comparable to that sold under national brands. In large institutions, like those referred to, where a specialist is employed to make specifications and where the volume of business is so great that manufacturers will bid spiritedly to get it, quality is to be assumed. In such cases the private brand may offer real competition to the best known brands. H. C. Bohack, proprietor

of a chain of stores in Long Island, was so dissatisfied with the quality of canned fruits and vegetables offered him by the well-known canners that he had his supply packed to his order and it was of strictly grade *A* quality. Unfortunately, where one private brand is found to be the leader in its class, a very great number are inferior. It may be regarded as a fixed rule that the unknown brand is of uncertain quality. Although there are a large number of people who are not very discriminating, in the long run quality will tell. The manufacturer who maintains it and the distributors who sell it will prosper in the long run.

Government Grading and Stamping.—A part of the consumer movement which has been attracting attention the last few years has been directed toward government specification and certification. This, in brief, means that the Bureau of Standards, or some other arm of the Federal government, would set up standards for foods, drugs, fabrics, and other household supplies, and provide grade labels. The American Standards Association, under the direction of Dr. Paul G. Agnew, has taken an active part in the movement. Large stores—especially those having their own brands—and mail-order houses have also been somewhat ostentatiously active in the movement. Manufacturers who have spent years in perfecting their products and in educating the public to understand and appreciate those products have been less enthusiastic about the project.

The greatest difficulty has arisen over determining just what constitutes quality. "Chemically pure" is an attainable standard for most drugs, but the cost makes perfection prohibitive for ordinary use. What degree of tolerance can be permitted, price considered, and still be approved as top quality? With fabrics the problem is slightly less difficult but far from solution. In a general way, standards have been worked out for canned fruits, vegetables, oranges, apples, and several other products.

The first idea was to accept the governmental standards for all products which the government buys on specifications. This was to be top quality. It soon developed that these specifications, for the most part, were not acceptable to manufacturers or to stores. There were many reasons for this. The army and navy supplies are not used under conditions comparable to retail store and kitchen. What might be well adapted to one was ill adapted to the other. Then the governmental specifications did

not take cost into consideration to the same extent as is necessary for the public. After several years' work by various committees this vexatious problem of quality is still far from solution.

The other difficulty, that of nomenclature, is not so perplexing as fixing quality standards but has not yet been satisfactorily disposed of. How many grades should be recognized? Would three be sufficient, or would five be required? The writer has seen six different kinds of "fresh" eggs for sale in one stall: fresh local, fresh eastern, fresh western, fresh winter, fresh imported, and "strictly" fresh, all at different prices.

Then, what would be done for the enterprising fabricator who brought out a product obviously of higher grade than the standard accepted as *first?* That was sure to happen. Again just what marks could be adopted that were capable of universal application? *A*, *B*, *C*, etc., conceivably might be used. It would be difficult to stamp these on shoes without confusion with the letters indicating widths. There were other similar limitations and conflicts. If 1, 2, 3, or firsts, seconds, thirds, etc., were used, would there be a distinction between creamery and dairy butter? Should size be recognized for apples, oranges, and lemons? Would only the largest size be first? How would a product be graded that was of higher grade than 1? Furthermore, numerical grading is bad psychology. Who would be content to buy third class? Even second class would meet resistance. The adoption of colors has been considered, but color has been so widely utilized in printing labels and wrappers that much difficulty was foreseen.

This subject will be given further attention in a later chapter It is brought up here as it pertains in a general way to distinguishing marks or brands. But inasmuch as the Patent Office does not register grade brands or labels, a system of symbols officially designating quality would need protection that would probably involve new legislation. The Blue Heart Rope Company registered a blue strand woven into a rope as its trade-mark. It next attempted to register another color for a different quality or grade, and was refused. This ruling would seem to bear out the prediction that new legislation would be necessary to protect marks officially designating grades.

Can Trends of Private Brands Be Detected?—One of the most convincing arguments for private brands, as used in selling

retailers, is that goods bearing them will not be cut by the chains. Most private brands are owned by wholesalers, who sell very little to the chains and nothing at all bearing the distributors' brand. The story of the loss leader is long and full of dissension. Retailers sometimes charge that, where there is an adequate margin on nationally advertised brands, price cutters will not adopt it but demoralize the market by disastrous price reductions.

The new fair-trade laws have made it possible to put a stop to harmful price reductions in states which have the fair-price laws. The super markets are another strong influence in helping to maintain national brands. Women invariably prefer known merchandise to unknown and select the items bearing brands with which they are familiar. The result of this has been to stimulate the sale of manufacturers' brands even in super markets owned by the chains.

On the other side, such cut-price stores as R. H. Macy & Company are going vigorously after business for their own brands. The following excerpts from a half-page advertisement in the *Herald-Tribune*[1] are sure to prove effective in diverting sales from national to private brands.

THE CONSUMER WILL NOW DECIDE:
TAKE YOUR CHOICE OF THESE TWO GOOD MINERAL OILS

From time to time, consumers are advised by their physicians, or decide on their own account, to purchase a bottle of reliable mineral oil. The properties and uses of medicinal mineral oils are well known to the medical profession, and to many laymen. Not so well known is the result of price-fixing by the manufacturer under the New York State Feld-Crawford Law. Since the Consumer's Choice will depend upon the quality of the article, the following comparison between two reliable mineral oils is here submitted.

1. This bottle represents 16 ounces of a well-known brand of petrolatum liquidum heavy, or medicinal mineral oil, made of genuine Russian mineral oil.
   It is made to comply with the requirements for purity set forth in the United States Pharmacopoeia (XI Revision.)
   Scientific analysis (made by Macy's Bureau of Standards, and by a reliable outside laboratory) indicates that this oil

[1] Apr 17, 1937.

—meets all the requirements of the United States Pharmacopoeia.
—has a specific gravity of approximately 0.8885.
—has a viscosity of from 330 to 359.

2. This bottle represents 16 ounces of Macy's brand of petrolatum liquidum heavy, or medicinal mineral oil, made of genuine Russian mineral oil.
   It is made to comply with the requirements for purity set forth in the United States Pharmacopoeia. (XI Revision.)
   Scientific analysis (made by Macy's Bureau of Standards, and by a reliable outside laboratory) indicates that this oil
   —meets all the requirements of the United States Pharmacopoeia.
   —has a specific gravity of approximately 0.8835.
   —has a viscosity of from 348 to 352.

"Except for the slight difference in viscosity," says the report of the outside laboratory, "both these products can be considered practically alike. Both meet U. S. P. requirements for identity and purity." Your physician can appraise for you these minute differences in viscosity.

This brand of medicinal mineral oil has been price-fixed by its manufacturer under the New York State Feld-Crawford Law.

1. . . . *Its fixed retail price*
   for a 16-oz. bottle is
   OVER TWICE THE PRICE OF THE OIL BELOW
   No retailer in New York State may legally price this brand for less.
   Macy's has this reliable mineral oil for those who want it.

This brand of medicinal mineral oil, a "Macy's Own" drug-preparation, is of course *not* price-fixed. It is "price-free."

2. . . . *Its retail price in Macy's*
   for a 16-oz. bottle, which includes a profit to Macy's and to the producers is
   33 cents
   Macy's has this reliable mineral oil for those who want to "save with safety."

Suppose this great department store with its affiliates, Abraham & Straus of Brooklyn and L. Bamberger & Company of Newark, should so popularize the Macy brand that other stores, in territories not competing, would want to stock it. What would

result? Is it not probable that Macy's would supply them at wholesale prices? Then another national brand would come into existence. It has happened before but usually in the case of wholesalers rather than department stores; Maxwell House coffee is an example.

There would be this difference. The brand attacked had had the great burden of creating a market, of teaching people to use this new product. Once a market is established it is much easier to get a slice of it than it is to develop a wholly new place for a product. As noted before, the department stores are extremely aggressive in taking part of the demand away from the one who created it, rather than in building up a market for themselves.

To return to the probable action of Macy's, suppose the advertising for their Red Star brand of mineral oil should gain such favor that drugstores everywhere would want to stock it. Is it probable that the Macy brand could be made and distributed to undersell the national brand? The authors' guess is that it could not. Where a store has a cash business and such a large volume of business that it can economically put up many of its own drug products, it may undersell other stores or other similar products which have pioneered. Is it probable that a department store handling thousands of products could make a drug item so expertly and so efficiently that it would surpass an old established manufacturing chemist?

Wholesaler Brand Competition.—With the chain and department stores buying direct from manufacturers, that part of consumer goods which went through wholesalers was much reduced. It was not only that the generally recognized department stores went direct to the manufacturers for supplies, but the general store began to put on airs. It changed its name. It, too, became a department store. The only change, besides the name, was that, with the growth of population, its volume of sales increased. Then it began to give more attention to buying. It went directly to the manufacturer. In many cases it offered its business to the same factories which had been supplying—and did supply—the wholesaler the store had patronized. In the fear of losing business, the manufacturer often went over the head of his wholesaler and sold direct to the retailer. The wholesaler's way of fighting back was to establish a brand of his own and sell it in competition with the goods he sold for manufacturers.

The justification was that there was no profit in selling only to the small stores—those who were unable to buy direct from producers. Often that was true. One of the favored arguments was—and still is—that, as the private brand is not advertised, it is made and sold more economically than similar goods nationally advertised. Another form of the same argument is that, while the national advertiser puts 25 cents a unit into advertising, the private brand puts that much into better workmanship and materials. As advertising this "saving" would be a ludicrous contradiction, it is left for the retailers to do all the selling. It is they who have to do the consumer advertising. This, of course, is one of the most expensive forms of selling, particularly when applied to items of small unit value. Magazine advertising at $\frac{1}{3}$ cent a page for each copy is so much more efficient. Then, too, the mass production that advertising makes possible is ignored.

Cooperative Brands.—When wholesalers and retailers act cooperatively in buying, it is possible to maintain standards which will build up private brands. Two examples of this are the brands controlled by the Independent Grocers' Alliance and the Plee-zing National Retailers' Association. These associations are aggressive within their organizations. Their principal claims are that they supply adequate merchandise which can always be sold at a profit and which is not available for the super markets or chain stores. In one of the recent numbers of *The Plee-zing Answer* was a statement to the effect that if the Plee-zing brands were sold the grocer could not be made to appear like a profiteering bandit when his prices were contrasted with those of the super market.[1]

There is no reason why any large group cannot adopt a trademark and apply it to the goods it distributes. It will be a distributor's brand, however, and subject to the limitation of those brands. The national brands are vigorously opposed by these cooperative organizations on the somewhat hypothetical grounds that loss leaders are always chosen from the well-known brands and that, consequently, it is impossible for an independent retailer in handling the established brands to make a profit. This reasoning is not conclusive. Because in the past an occasional loss leader has been chosen from the well-known brands,

[1] November, 1939, p. 9.

it does not follow that there is no profit to the grocer in handling standard merchandise. Surely such products as those that bear the Heinz, Beech-Nut, Van Camp, and other similar trade-marks of quality are sold at prices as reasonable as can be expected when their standard of quality is maintained. The difficulty with a good many private brands is that they skimp on quality while they keep the price at the level of the standard products. This may result in getting more from customers and giving them less for a time; but the authors submit that this is not a good way to build business.

If the cooperatives, by shrewd buying and with an expert knowledge of their products, keep them at a quality standard equal to national brands that sell at the same price, there is no reason why they should not be continually successful and build a permanent market for their brands, but the inference in much of their promotion literature is that they have a quality that will "get by" and that will provide a large margin. As the authors see it, the great trouble with retail business is the large number of small stores that are constantly failing because of limited business. Private brands will not protect competing stores from suffering from this, the worst of all competition, which is failing competition.

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CHAPTER XII

Prices and Profits

The Manufacturer and the Law of Supply and Demand.—Pricing and profits are so intimately related that they must be discussed together if they are to be fully understood. To make a library study of price brings one wholly into the field of economics. The authors have no taste for that type of study. Although it is true that at long last the law of supply and demand will govern, if a manufacturer awaits the effects of that law in fixing his prices, he may be out of business before he can discover how that law affects him and his products. The manufacturer, the wholesaler, and the retailer are faced with a practical problem in making prices, and their immediate concern is far removed from the abstract considerations which the economists have advanced. All businessmen know that the price must not be so high that sales will be restricted to a few buyers, yet should be high enough to cover all costs and provide a profit in addition. Their task is to set such prices that, when each unit of sale is multiplied by the net profit it produces, the maximum result will be secured. If the price is too high the number of sales decrease, and if it is too low a greater number of sales will produce a smaller profit. The right price is not necessarily the one that results in the greatest number of sales but in the largest net gain.

Most farmers have little to do with fixing prices. They produce all they can and accept whatever price it will bring. The part of the total that each farmer supplies is so small that he cannot influence the selling price by withholding part or all he is able to produce. For most manufacturers the problem is differ-

ent. If a market cannot be found for its output at a price which produces a profit, the loss incurred by selling at what is offered may be so heavy that it is more profitable to let the factory stand idle for a part or even, in bad times, for all the normal season of production than to sell on disadvantageous terms, or for the sake of holding customers it may be best to operate for a minimum season at a loss.

To the farmer who does his own work, whatever is produced for sale represents income that would be sacrificed if he failed to produce. The manufacturer, on the contrary, must put money into production, and he may not be able to get as much for his products as it has cost him to produce them.

Flexible Markets.—There are two different ways of looking at market flexibility. One is that more units of a product will be consumed if the price is lowered. A drop in price will extend the market so that a smaller profit on each item will be compensated by a larger number of sales. The other is that, while the number of units consumed may not be increased by a lower price, conversely the amount paid for each unit may be increased without decreasing total consumption.

The nature of active, positive competition must be examined in considering the flexibility of any market. For example, the consumption of wedding rings is pretty definitely fixed. If the price were to double, the number bought would be little affected. If the price should decline to one-half, the sale would not be noticeably stimulated. Yet every producer in a country like the United States is in competition with every other producer, and a comparatively small price differential by the manufacturer may bring him extra business at the expense of his competitors. The difference in price may be represented by service as well as by difference in the amount of money involved.

The explanation for this is psychological. The wedding ring is a social necessity. It also tends to satisfy a person's instinct to decorate himself. Even if the intrinsic value of various rings is the same and all alike satisfy the social demands, but one is more highly decorative and therefore a greater mental satisfaction, competition is sharpened among producers by this factor. So, while the number of rings actually sold is not influenced by price or competition, the number which is sold by the various producers may be changed strikingly by competition in price

or in the service represented by the personal satisfaction which results.

The other kind of competition is that which exists among all articles that satisfy human wants. Practically no one has money enough to buy all the things he would like to own, so that purveyors of food, of clothing, of recreation, of investments, and of shelter are all in competition for each man's dollars. This becomes most effective when the price of one item, like the wedding ring, changes more rapidly than other values.

Suppose that the value of gold should advance to the place where wedding rings cost ten times what they now cost. Other material, like steel during the Italian gold shortage, would be substituted. Approximately the same number would probably be purchased as before.

If cayenne pepper is considered instead of wedding rings, a different kind of market flexibility would be effective. There is still the same competition among producers, subject to comparatively slight price differentials. As in the case of the wedding rings, a considerable fluctuation in cost affects the sale only slightly. However much the price might drop, that alone would not induce more people to buy or influence those who have previously consumed this article to use it in a larger amount. But the intrinsic quality of cayenne pepper, unlike that of wedding rings, could not be changed. So if prices went to really prohibitive heights, say, $1 an ounce, some other spice might be substituted, but it is more probable that the cayenne pepper would continue to be sold in small quantities.

A factor often overlooked in items of this nature is that their use is so limited in each family– that is, the market is so thin—that it cannot be stimulated by outside inducements such as advertising and salesmanship. This adds to the inelasticity.

As a matter of reality, practically no item has a positively fixed, or inelastic, market, but the degree of elasticity varies greatly among different articles. Automobile tires, lubricating oil, coal, wheat, and cotton represent types of products of low market elasticity. On the other hand, items of style and most luxury articles have highly elastic markets. This means that advertising and good salesmanship may greatly increase consumption. Furthermore, fads and other temporary vogues may markedly increase or decrease the market for many goods.

Pricing for Inflexible Markets.—The less elastic the market for a given item, the more staple the selling costs tend to be. Wheat, corn, cotton, copper, and rubber have comparable prices the world over. This means that the types of compensation for the various services that go into their production and distribution have been pretty highly standardized. If wages in the wheat fields of Washington, Oregon, Idaho, and Montana are higher than in Australia and the Argentine, then other expenses, such as moving the grain from our Pacific Northwest to the place of consumption, must be less than those of other countries, or there will be no foreign market. The saving may be in one of several forms. Tilling and harvesting machinery may make it possible for American labor to produce more than men laboring without those advantages. It is not so much the money paid for a day's work that counts as the monetary value of labor for each bushel produced. Items of marketing expense other than transportation are warehousing rentals for storing, the cost of milling, and the work involved in loading and unloading from boats and trains. Another considerable expense is the use of the money necessary to finance shipping and storage from harvest time until the wheat is converted into food. All these, together with a profit for each owner of the wheat as it passes along the line, combine to make up the price.

Now if some great milling company cuts the price of flour 50 cents a barrel, it will not increase the consumption of wheat, or of wheat products, noticeably. It may, by lessening its own profits or the profits or wages of some who supply wheat, extend its market. But it will be at the expense of other millers. It will add very little to the general consumption.

Failure to recognize that fact frequently leads to unprofitable, even disastrous, price wars. For example, powdered milk has a fairly inflexible market. This does not mean that the market could not be extended by vigorous sales promotion. But without such stimulation, the growth of its sales is proportional to the growth of population. Yet in the past it has been the unfortunate experience of this product to endure severe price wars. This has meant that manufacturers have had their earnings seriously impaired or sacrificed by unnecessary price reductions. There has been little compensating advantage to anyone except the large-scale distributors, who were able to buy in carlots or

even by trainloads. The price reduction to consumers has seldom amounted to more than a few cents a month.

Another example of unprofitable price cutting has occurred in the printing-and writing-paper industries. Mills with excellent products, sold under respected brands, have in times of slack business removed their identification marks and sold their products at a price so low that there was no profit. This did not get any new business but forced other mills to lose business or to sacrifice profits also. Many times salesmen in this field have been permitted to go to their customers and explain that the paper is the same but the price has been cut because of competitive conditions and, for fear of hurting the market when times improve, the brand has been omitted.

Large printing houses were able to buy and hold paper. But a few cents' difference in price did not increase consumption. So profits have been needlessly wiped out at a time when they were most needed, and, because of paper bought at depressed prices for future use, even normal profits were reduced.

Lessening prices alone will not create business, especially for staples. Many staple goods are priced by auction. The "exchanges," boards of trade, and various commission markets tend to fix prices for large areas, even for the whole world. When wheat is sold in Liverpool, the price is fixed for every crossroads shipping station where this grain is sold by growers. With some more or less temporary exceptions, the local price is the Liverpool price less the expense of carrying wheat to Liverpool. So with a large number of products, especially raw materials, pricing is more or less automatic. Profits are generally reduced to rewards for services performed.

Pricing for Flexible Markets.—Flexible markets, as pointed out above, pertain to style goods, novelties, luxuries, and new products which are to be used as substitutes or to serve some desirable purpose which previously had been cared for in a less satisfactory way.

There are practically no public auctions or markets for these goods, so pricing is more or less a series of trials and errors until sufficient experience is accumulated to act as guides. For most of these items estimates, guesses, and opinions, founded at best upon imperfectly recollected procedures of other years, constitute the basis for fixing price.

The theory is that the less the price, the greater the consumption will be. On this theory presumably the maximum would be reached when the product was no longer sold but distributed free. Air and water are examples, but to close observers it is apparent that the absence of cost does not ensure the use of quantities most beneficial to consumers. In old people's homes it is frequently noted that inmates do not drink as much water as they should for their own good. As for air, how many expand their lungs as frequently as rules of hygiene dictate?

Free distribution is a condition that is seldom encountered in practical marketing. The nearest approaches are such practices as the supply of soap for the wash basins in offices and factories, lead pencils in offices, and stationery in hotels. A slight tendency to wastefulness tends to prevail at free dispensaries, but it is seldom serious. And the last reduction in price—the last step before the item or service goes on the free list—is not always an inducement to greater use. An example of this is the automatic weighing machine. Side by side with a scale for which there is no charge, a penny-in-the-slot machine prospers. A specific example is available. At each or the two entrance doors of the Tailored Ready Store on Pike Street in Seattle, a free weighing machine was placed. They were popular and frequently used. But a keen salesman induced the manager to replace one of the free machines with a penny-in-the-slot scale. A count was kept of the number of people which used each. The first surprise was that both were used more frequently than when they both were free. The contention of the salesman that as many would patronize a pay scale as a free one was amply borne out. So both the free machines were replaced by the coin scales, and there was no diminution in their use. In public places where a coin is necessary to secure a drinking cup, use of the cups is about the same percentage of traffic as when they are given away.

It is related that a psychologist is responsible for changing the directions from "drop a cent in the slot" to "drop a *coin* in the slot." The returns were surprisingly increased by this change of words. The assumption is that nickels and dimes were occasionally used when the buyer did not have a penny. Before the change in the instructions, it probably did not occur to the buyer that the machine could be operated by other coins than the one designated.

In Massachusetts there is a state service for small loan borrowers, with fees so low that no business concern could compete on price. Yet the private loan companies do most of the business in this field and seem to prosper to about the same extent as where there is no state service.

When the Triborough bridge was built in New York City, the toll charge was fixed at 25 cents for each private automobile. The distance to points on northern Long Island was about the same from the downtown and shopping districts of the city whether the old Queensborough bridge was used or the new Triborough. Although there was no toll on the older bridge, hundreds of automobiles accustomed to that route left it for the toll road. There was little or no saving in time, but the new route was less crowded and there was little occasion for slackening speed.

In spite of many exceptions and seeming exceptions, it is true that the lower the price the greater the sale, but price must be considered intelligently. It is not enough to dismiss it as meaning the amount of money necessary to secure an article under normal conditions. Price may be lowered by increasing the quality. The Ford car sells for about the same amount of money now as the Model T brought in 1920. But in speed, comfort, and appearance one gets more car satisfaction now than 20 years ago. So we say that the price has declined.

It is assumed that the automobile market is flexible, that lowering the price increases the number of sales. It is hardly to be supposed that 26,000,000 automobiles would be in use if they cost as much and provided no more comfort than 20 years ago. But suppose improved technology could reduce the price 50 per cent, is it to be supposed that the number of automobiles in use would double? More and better roads and vastly increased parking facilities, besides the improvement of other allied conditions, would be necessary to double the sale of automobiles.

The law of reduced price and increased sales, it can be seen, has definite limitations. So have flexible markets very definite limits. A drop in the price of mechanical refrigerators greatly increased their sale, but it is conceivable that their market would reach a limit no matter what the price. Two cars to a family or two or more radios for each home are possibilities, but how many housewives would put a second refrigerator in the kitchen even

if it could be had without cost? Economists long ago taught us that price alone would not create a market, but many businessmen have forgotten or ignored that lesson.

The Right Price.—To arrive at the right price is always difficult and sometimes impossible. If competitors are intent on losing money in the struggle for markets, it may become necessary, temporarily at least, to sell at a loss. That is, between a probable loss of prestige and inevitable loss of customers if competition is not met, and a monetary loss on each sale if the price is forced down too far, the wise choice may be the latter.

In a monopoly, the price is the one that is supposed to bring maximum profits. The margin will then be such that when multiplied by the number of unit sales the result will be the greatest. The authors believe that principle can be safely followed when there is no monopoly. Further, we believe that profit is a reward for service, and that, with good management, the greater the service the greater the profit. No originality can be claimed for this, as the same idea is proclaimed in the New Testament: "Let him who is greatest among you be servant of all." In other words, he is greatest who serves the largest number.

Reducing unit profit and multiplying the number of unit sales has been followed by the automobile industry and is probably one of the chief factors which caused its rapid growth. Many examples can be cited of individual firms which have been highly successful operating on this policy. Woolworth stores and the Scott Paper Company are two which are conspicuous. This has been strikingly true also of building contractors of the last few years. New houses are better built and more artistic and have more of the conveniences than houses built even at the height of the depression, yet are much cheaper. One construction company[1] has helped to bring down the price by equipping their houses with mechanical refrigerators, gas or electric stoves, electric washing machines and ironers, garbage incinerators, air-conditioning equipment, shades, and screens, and still meeting the competitive prices of new houses not so equipped and of older houses which come onto the market. Buying all the enumerated equipment in large quantities, most of it direct from the manufacturers, has provided such a considerable saving, in comparison

[1] Levitt & Sons of Manhasset, Long Island.

with what the home owner would have to pay if he bought and installed each item separately, that the completely equipped home sells for even less than bare houses of similar size and structure brought a decade ago. One of the first great savings this builder provided was financing at actual cost. Until very recently the cost of financing a new house, where a second mortgage was necessary, ran from 8 to 10 per cent of the total cost. The moneylender was able to get a profit out of all proportion to his contribution. By securing standard equipment as part of the house, sales costs for the various items was greatly reduced. Houses were sold direct so that the realtor's commission was saved, at least in part. All these savings to buyers enabled the builder to sell houses as fast as he could finish them in the lean years of 1936–1939.

The "shrewd" businessman of past generations seldom was able to see that his greatest success lay in voluntary reduction of profits. The railways placed their rates so high as to be all but prohibitive. They went to a great expense to secure the election of "friends" to the Congress and to state legislatures in order to avoid hostile legislation. They were openly accused of spending huge sums to secure the appointment or election of complacent judges. As a result, popular prejudice became so strong that almost any "peanut" politician could secure election on an antirailroad platform. Repressive laws were multiplied, partly in a spirit of reform, partly in retaliation, until it has been made next to impossible for the railways to earn legitimate expenses, to say nothing of profits. It does not help a million or more stockholders to say that the railways brought this condition on themselves.

Some public utilities have followed the policy of taking all that they could get and giving as little as they were forced to give. They sold inferior equipment at ruinously low prices, thus forcing out competitors, and recouped by the larger amount of current it was necessary to buy in order to operate inefficient toasters, flatirons, and stoves, which they sold without profit. Some of them even gave away electric lamps which consumed much current, to prevent their patrons from buying more efficient lamps. Much of the trouble the utilities are now suffering they have brought upon themselves. A large part of their present difficulties are directly due to bad marketing practices, especially

wrong pricing, and to a policy of giving the consumer the least for his money rather than the most.

Give the Most Rather Than Get the Most.—There is very little money being made in the safety-razor industry. The inventor, King C. Gillette, made a huge fortune. He was largely guided in his marketing policies by an astute advertising man, George L. Dyer. Gillette was unable to build a factory when he received his patent for the safety razor he had invented. Fortunately he found a manufacturer of novelties who was willing to undertake to make them in large numbers. But as a good businessman he raised the question of marketing them. Together they went to see Dyer, one of the leading advertising men of the time. The cost of manufacturing and the price to sell at retail was raised. Gillette had thought that the razor should sell at $1, as it cost somewhat less than 50 cents to make with two blades. Dyer objected. His reasoning was along this line.

> You are starting out to change the shaving habits of millions of men; that is going to cost money. It is not merely a matter of the first sale; many would try a new safety razor at half or a third the price they pay for a straight-blade razor. Buyers will have to learn a new technique of holding the razor. If they give only $1 for it they will throw it away after a trial or two, if they do not immediately get on to the hang of it. Put your price at $5. Make the razor better, and, instead of giving two blades, give six with it. Then the buyer will have an investment, and he will give the razor a thorough trial before discarding it. Probably he will learn to use and like it, and thus he will become a booster. If he paid only $1 and found he did not care to use it, he would not hesitate to knock it. If he pays $5, even though he never uses it, he will be loath to admit that he was stung. Besides, a price of $5 will give you enough margin so that you will have money to promote sales.

After Gillette's death the company continued the policy of getting the highest possible price for its products. The wide margins between cost and selling price invited the competition that has resulted in chaos to the business with little or no profit for anyone. Had the original company utilized its vast equipment and far-flung distribution system to keep the price down to the minimum, it might have continued to dominate the industry and to amass huge profits.

The manufacturer failed to see that when a widespread market had been established his sales problem had entirely changed.

By the time the basic patent had expired the razor no longer needed aggressive promotion. It was more of a staple, and the sale of blades, another staple, constituted his principal business. A heavy cut in price both of razor and of blades before the patent protection expired would have discouraged competition. Keeping prices needlessly high destroyed much good will and invited competition, which was not slow in getting into the field. The necessarily high price when introducing the razor had unfortunately become a fixed policy.

No one is more conservative than the successful businessman. If he has found some procedure successful over a term of years, almost invariably he will continue even though it leads him to the brink of disaster. The most striking example is Henry Ford. Had he understood marketing research, he would have had a new model tested and ready before discontinuing the Model T.

Pricing By-products.—Where valuable by-products contribute to the profits of the business, making prices may involve new factors not inherent in such businesses as we have considered up to this point. By-products are subject to the following conditions: (1) The supply is limited. (2) Marketing may need to be through different channels than those used for the main product. (3) The market may have much greater or much less elasticity than the primary market. (4) The intensity of competition is seldom the same as in the primary market.

The petroleum industry, meat packing, and cotton processing are three fields in which by-products are of more than usual importance. For example, Swift and Company make a very limited profit on their main product, fresh meat; but, as it constitutes their primary market, the overhead of the business is charged against meat and the by-products provide the profits. In the best grades of bacon, hams, and lard, the market is highly elastic, while the supply is fixed beyond the packers' ability to modify it. Years when the supply is plentiful sales-promotion efforts may be accelerated, and of course the reverse is true; but prices of these products will not always parallel prices of fresh meats. Scarcity means a fairly high price, regardless of staple meat prices. An abundance of prime hogs does not ensure a low price for Premium hams and bacon. The demand is so great that only in exceptional years will a great supply force prices down.

With such products as albumin and glue, conditions are not necessarily the same as with meat products. There will be an abundant supply of materials to make these when there is an abundance of livestock to be slaughtered. As one of the chief markets for albumin is in manufacturing photographic or sensitized paper, there is only a distant relationship between the demands of the users and the source of supply. Prices, as influenced by demand of these two products, are unrelated to those for meats. The markets for glue are largely in making furniture, straw hats, shoes, bookbinding, and paste for wall-paper. In all cases the markets are inflexible, as far as being influenced by price is concerned. This does not mean that the prices are constant. They fluctuate, but in neither case does low price stimulate or increase the extent of the markets.

If the demand of either of these products should increase to a large degree, new processes and new supplies of raw materials would be sought. If they were not found, prices probably would be increased until substitutes were developed. If the demand for glue and albumin fell off to a marked degree, it is possible that not all the available materials for their manufacture would be utilized; they would be disposed of in some other form, possibly to the fertilizer plant. Then energetic means would be taken to find new markets for these profitable by-products.

An example of the fixed supply and expanding market was provided a few years ago in the use of soft maple for making laminated furniture. There seemed to be an abundance of this wood and, as its qualities did not recommend it for many uses, the price was low. As it was well adapted to making laminated furniture, it was widely requisitioned by purchasing agents in this field. The supply was so limited that as the market for the laminated lumber grew the price for soft maple increased until it rivaled that of many of the choicest cabinet woods. A little research showed that the southern gum was equally good for the purpose, the supply seemed inexhaustible, and the price was reasonable. The price of soft maple soon fell to that of gum.

Soap and cleansers are other by-products of the meat packers. The markets for both are highly elastic and competition active. But these products are not so closely controlled by the supplies of raw materials as those of albumin and glue. Sales promotion efforts may be as aggressive as desired. If the sales grow to such

proportions that the routine operation of the plant does not supply sufficient raw materials to meet the call for these products, the materials may be secured in the general market, or it might be possible to contract with other factories to supply the shortage. This is commonly done by oil and gasoline companies. The point is that, in highly flexible markets like those for soap and cleansers, the price will be wholly competitive and unrelated to the primary business of the parent concern. In the case of products having closely fixed markets the competition may or may not be aggressive, but the supply of materials is fixed by conditions wholly unrelated to things that influence the demand. Glue and albumin fall into this class. The demand does not respond to sales-promotional efforts, but if the demand does increase there will be a higher price as soon as a shortage is felt.

Factors in Making Prices.—Reference has been made to fair prices and profits. What do these terms mean? What is a fair price or a fair profit? It is universally recognized that the selling price must cover the costs of materials, labor, and other conversion expense, such as power, insurance, repairs, and replacements in the factory and office and all other charges commonly designated as overhead costs, one of the most important of which is interest on the investment. To all of these, selling costs must be added. Aside from criticism of the expense or investment in developing new markets, there is little or no controversy even on the part of the most aggressive critics of our marketing system. So far in this discussion no provision has been made for profit, without which no business can long survive. Profit is the excess of income over costs for a definite period of time. It is variously called the reward for good management; the reward for assuming risks; and the usufruct of enterprise. Students and even businessmen confuse margin with profit. The former is the difference between the cost and selling price of a product or service. The latter (profit) is the increase in assets over liabilities at the end of the fiscal year. Often items that carry a wide margin may prove unprofitable because of small volume or the expense involved in handling.

What the basis of profit should be is a question that still awaits a satisfactory answer. It is akin to the even more famous query of what a fair wage is. Profit, in a general way, should depend upon investment; that is, other things being equal, the larger the

investment, the larger the profit. But seldom are "other things equal." What then? What can be done to equalize the remuneration for the different degrees of risk which are inherent in all enterprises?

Assuming Risks.—A considerable amount of correspondence with business firms and an extensive search through published reports reveal four different bases used or advocated to calculate profits. The one most commonly mentioned is the return on investment referred to above. The investor is entitled to interest on the money, either that which he lends a firm or that which he pays to become a part owner of the business. His return on a loan is called "interest"; if he is a part owner it is a "dividend." There is a vast difference in the two conditions. The loan will probably be secured, and, whether the borrowing firm makes or loses money, it will have to pay its creditors for the use of their money. If the investor becomes a partner, he will be paid for the use of his money only when and if the firm makes money So he is entitled to something over and above the amount paid for the use of a similar borrowed sum; in other words, a profit. The greater the investment, the greater this return should be for any particular business. But if one man puts his money into a factory where explosives are made and another invests in a flouring mill, should the rate of return be the same? The manufacture of explosives is extremely hazardous, while milling grain, aside from the fluctuation of prices against which a miller may insure himself (hedge), is a conservative business.

If one attempts to compare the degrees of risk of these two enterprises, one soon finds that there are insufficient data to form a basis of comparison. The fire risks in most types of manufacturing plants have been studied over a sufficient range of time and over such varying conditions that it is possible, for a reasonable amount, to insure against loss by fire. This is true of many other risks, such as loss from the theft by officers (who are bonded), damage from tornadoes, damage suits because of injuries to people or property, or even loss through the death of officials (by carrying life insurance). But there are many other contingencies which involve hazards, the responsibility of which cannot be passed to others.

If war should come and the market be reduced or wiped out; if a new product comes onto the market which makes yours

obsolete; if your advertising campaign fails to bring results; if you lose some of your best customers; if you or your employees make costly mistakes, there is no one but yourself to shoulder the resulting losses. Now it is for assuming all these, and many other uninsurable risks, that you as a proprietor are entitled to a profit over and above payment for use of the money you have put into the business and in addition to any salary you receive for your services. And the *fair* return from one business as compared with another cannot be mathematically computed. It is true that, if considered over a series of years, a dollar invested in one industry or business should bring the same return as a dollar placed in any other business. But it is impractical to make comparisons over a long period of time. The man who puts his money into a plant for manufacturing explosives may have the misfortune of having the factory destroyed by an explosion the first year and all his capital thus wiped out. The large profits that his successors may make over several years before a catastrophe overtakes them will not compensate him. Furthermore, the lucky man who withdraws from the company just before a heavy misfortune falls upon it will not permit his gains to be averaged in with the losses or to compensate the unfortunate man who made no profits.

Prospecting for precious metals is one of the most highly speculative of undertakings. The one who "grubstakes" a prospector, supplies him with tools, food, and other expenses, is the capitalist. If no ore is located, one loses the money he has put into the undertaking; the other loses his time. But if gold is found the two share equally, and the profits may be out of all proportion to the time, money, and "brains" that have been put into it. Is it not apparent that the amount of the investment alone is inadequate as a base for profit and consequently for making prices?

Other Bases for Profit.—Three other bases beside the amount of investment are sometimes used for calculating profit: volume of sales, costs, and conversion costs. For the first of these, volume of sales, there is not much to be said, although a number of firms are known to base their prices so that sales will net a predetermined percentage. If 2 per cent can be netted on total sales, the results would probably be satisfactory to most stockholders. But this seems to the authors to omit some basic

considerations. How is the price to be arrived at *before* the profit is added? No firm which uses this method has elaborated it sufficiently to reveal the process. If costs are taken, as they must be, what provision is made for determining the expense of carrying the risks which must be assumed? The one possible answer is that over a term of years the costs of these risks have been closely estimated and a sufficient amount is added to overhead to cover the item. When and if that is done, this method is the same as using costs as a foundation for making prices. This is the accountant's method, and he assures all inquirers that that is the "only" method. But, of course, estimating the expense of carrying risks that cannot be passed on to others is not a matter merely of bookkeeping. It is feared that cost accountants too frequently do not provide adequate allowance for the incommensurable risks. Good management usually means avoiding unnecessary risk or, when risks must be assumed, taking the ones of least cost. That is apparently a part of good management.

Finally, the basis of conversion costs is to be considered. It is least understood and consequently least often used. The method is expounded by W. L. Churchill.[1] It is his contention that profit should be *based* on all the costs that go into manufacturing an article except the materials. He makes out a strong case for this method. Management is concerned with men, not materials. The service a fabricator performs for society is what he does *to* the materials, not merely his handling of them. This is similar to the idea of the governmental reports on industry as given in the Biennial Census of Manufactures, in which the "value added" by the processing, combined with the cost of materials, constitutes the dollar volume of the industry. Churchill shows that, in the firms he has investigated, a fair profit is produced when the price is twice the conversion costs plus the cost of materials and plus the selling costs.

Concerning profit on materials Churchill says:[2]

> Certainly—if you are a manufacturer you are selling your ability to convert the materials into the product or devices desired by your customers. For this service you must collect a profit equal to its normal cost. When profit is placed coincidentally upon materials and con-

[1] "Pricing for Profit," The Macmillan Company.

[2] *Ibid.*, p. 30.

version cost, the profit varies with the value of the materials used, rather than with the amount of effort applied by the manufacturer.

One of the authors found this to have occurred in the contract between the Goodyear Tire & Rubber Co., Inc., and Sears, Roebuck and Company. If the price of rubber fell below a certain amount, the per cent of profit was to be increased—a provision not popular with the FTC. However, the Supreme Court found in favor of the company on an appeal.

Churchill's theory is expressed in the following formula: $P = 2C + M + S$, where P is price; C, conversion cost (all manufacturing costs except materials); M, cost of materials; and S, cost of sales. That is, to double the conversion costs provides a profit that is adequate but not excessive. This assumes that losses from risks will be adequately covered. A corollary is that risks are in proportion to fabrication costs. The authors accept the Churchill idea of founding profits on the value that is added in processing, but we believe that much further research will be necessary before the exact relations—which he assumes—will be established beyond doubt.

Advantages of Basing Profits on Conversion Costs.—There is much logic in basing prices and, consequently, profits on conversion costs. In the first place, conversion costs will not vary so much as costs of most raw materials. For branded and widely advertised goods there is a distinct advantage in keeping the selling price as nearly stable as possible. If items such as flour, where the changing price of wheat makes a constant retail price very difficult, the profit will fluctuate with the price of the materials, if total costs are used as a base. There is no apparent reason why the miller should not make as much money on a barrel of flour when wheat is 75 cents a bushel as when it is $1. It is just as much work to make the flour with low-priced grain as when the price is high.

The same principle applies to the bakers. It is not the cost of their materials that justifies a profit, but the services they perform for their customers in converting those materials into food. Those services should be compensated independently of the material costs.

The tailors of New York City have largely adopted a system which provides a fixed charge for the labor of making a suit of

clothes. There are at this writing three different levels, each about 25 per cent higher than the preceding, although the differentials are no more uniform than the basic charge. The idea is that it is the amount of work that is required to make the suit for which a charge must be made. The quality of the materials used may be of different values, but that should affect the tailoring charge only as more expensive fabrics may entail greater risks. If a piece of rough-finished worsted is damaged, the loss will be greater than if a similar accident happens to a piece of serge. In either case it seems to the authors that the risks of handling are part of the operating or conversion costs.

The same conditions occur in printing offices. Many buyers of printing secure the paper direct from the mills and send it to the printer. The typesetting, presswork, and binding are the main items of the printer's conversion costs and they are little affected by the price of the paper. Even when the buyer permits the printer to act as his purchasing agent for paper, there is little justification for attempting to collect the same scale of profit on the cost of the paper as on his conversion costs, which are his real source of profit, since they reflect the value of his services. We believe this also should apply to the great clothing industry for both men and women; give adequate compensation for making garments, not for handling materials. If the prices of materials change, these changes of price should not affect the profits of the manufacturers.

A practical reason for basing price and profit on conversion costs is that it facilitates cost keeping in terms of units. In another chapter (Chap. VII) we have discussed selling costs and methods of cost accounting as applied to sales. It is there shown that the easy practical way of computing and controlling sales costs is by unit of sale for each trading area.

Again, from the strictly economic side, we recommend regulating profits in accord with conversion costs. If profit should be a reward for incurring the risks of enterprise, it should be measured by the extent of the enterprise or the service rendered. The *real service is in the processing. If profit is to be a reward for* good management, the best measure will be the skill shown in factory operations, not merely in handling materials. Finally, if profit is a reward for good management, remuneration should

be meted out according to the management of men. Men are necessary for all forms of processing. So whatever the justification for profit, its measure can be determined as well by conversion costs as by any other system yet proposed.

Common Practice as Reported by Some Leading Industrialists. Following is a summary of the different methods used by a considerable number of leading industrialists in making prices. This information was secured by a questionnaire mailed to well-known firms in the various industries.

Athletic goods and swimming suits:

1. We estimate the direct labor and overhead necessary to operate our plant on normal capacity (66⅔ per cent of maximum capacity).
2. We then prepare our budget and forecast our constant selling cost on the normal volume.
3. We then calculate the percentage that the variable selling costs bear to the selling price.
4. We then determine on the percentage of conversion costs which we feel justified in taking for our profit.
5. We apply price formula: Conversion cost, plus profit, plus constant selling cost, plus material, equals selling price minus variable selling costs.

Cereals, rye wafers:

Prices are established as follows:

Bulk goods. As the raw material is a big part of the cost, prices change daily or as often as the raw-material market requires. The factors involved are material, processing, packing containers, selling, advertising, freight, storage, general and administrative expense, and a fair profit. The total constitutes the selling price. Sometimes, of course, competition forces a lower basis, which means a reduction in the profit factor. Usually the raw material is the only factor fluctuating frequently so that a price change is very simple to construct.

Package goods. The raw material in the average household package is frequently a relatively small part of the total cost, so that ordinary fluctuations in raw material do not necessitate price changes. The factors in the price are the same as

in the bulk goods but the procedure is frequently the reverse. In the case of a new item, for instance, the starting point is usually the retail selling price.

Wheat flour and grain products:

In a business such as the milling industry, where it is necessary to operate on a large-volume basis on a very narrow margin, it is necessary to follow certain practices:

1. Figure cost of raw material as a basis for replacement cost for raw material.
2. Add the cost of processing based on an average (usually the previous year's average cost).
3. Analyze the factors affecting the various distribution classes and arrive at a cost basis for each class, which is added to the raw-material price plus conversion cost.
4. Adhere to a definite policy that provides that no business must be accepted which does not reflect the total of these cost factors.
5. In connection with the profit factor the majority in the industry have little or no idea of sound merchandising, as the concern in the industry for some generations past has been one of operating the plants and permitting the matter of profit to take care of itself.

Fertilizer:

The actual prices which we use are arrived at by a very accurate calculation of our costs by factories in different zones, each factory being weighted in the average according to the tonnage shipped, plus the average freight rate on our total shipments into each zone, plus our actual overhead expense, plus 10 per cent for profit, to arrive at our cash or SDBL price. We then add to this a compensation of 10 per cent for agents and approximately 10 per cent for cash discounts and thus secure consumers delivered price on a time basis.

Household insecticides:

1. Set up a standard cost based on estimated cost of raw materials, cost of manufacturing labor, and factory overhead.
2. Estimate selling expense. This selling expense, added to the standard costs, makes up the selling price without any definite profits.
3. *Add on a reasonable profit, limited by competitive prices.*

Locks and builders' hardware:

Establish flat cost of labor and flat cost of material used. Factory over-head expense is added, based on departmental expense and including shipping expense. This is our "shop cost."

Selling and administrative expense is added, the selling including the advertising and all other expenses incidental to selling the product. This is our "actual cost." The difference between it and our selling price represents a net profit.

Add 25 per cent to actual cost in arriving at a selling price.

Machinery and tools:

Our prices are established based on the cost of the material that we purchase and the number of hours required to make the article. Hourly rates are established for the different machines and different grades of skilled workmen. Overhead is covered in these rates as well as a profit item. This profit will vary on different items, being governed by whether the profit has to be spread over a long period or whether we can consider it reasonably uniform in each year.

Establish rate per hour for product.

Multiply it by the number of hours.

Add the price of material plus 10 per cent carrying charge for materials purchased from outside.

Milking machines:

1. Determine prime cost, which includes raw material and labor used in producing the finished product.
2. Add 100 per cent for overhead, depreciation, and other factors, based on a certain predetermined volume annually, which determines factory cost.
3. Increase factory cost 100 per cent to establish list price.

Materials-handling equipment:

Profit is calculated in price on a percentage basis. Previous experience determines selling costs in price. Formula used: cost, plus selling expense, plus profit. Competition is carefully considered in establishing price.

Men's medium-and high-grade shoes:

Men's shoes are usually sold by the retailer at fixed prices established over a long period of time. Our price to the retailer must allow him a markup of from 37 to 40 per cent,

based on his retail selling price. We believe we should show a net profit annually of at least 10 per cent of our invested capital.

Ladies' fine shoes:

Steps in building prices:

1. Estimate sales by lines of shoes.
2. Determine price levels for various lines.
3. Set up temporary estimated costs to determine grades of materials to be used.
4. Set up permanent budgets on material, direct labor, expense, and profit.
5. Build samples for various lines and figure prices on above budgets. If prices do not fall within predetermined price lines, samples are thrown out or changed to meet requirements.
6. When lines are completed, we average prices of various models in each line to see that they hit predetermined levels.

Oil-heating appliances:

We have never allowed competition to determine prices at and for which we have sold our units, either wholesale or retail, but have invariably based them upon actual manufacturing costs plus a definite operating expense, covering executive overhead, general office expense, advertising, and selling expense.

We are not now nor have we been in a favorable price situation, in so far as the oil-burning industry is concerned since 1930. We have invariably fought low-price competition on a quality basis and have been successful in securing the business.

Air conditioning:

We start off with a departmental budget of sales. We know what our expenses should be, and we estimate what our manufacturing costs will be. Having in mind these two factors, we attempt to establish a selling price that will leave a margin over the total of the manufacturing cost and the selling expense.

Selling prices, unless reference is made to a product having peculiar identity and features, have to conform to the prices of competitor's products.

Therefore, it can be summed up by saying that your selling price is not what you would like to get, but what you can get in a competitive market.

Air-conditioning equipment:

1. Prepare a cost estimate based upon producing a reasonable number of units and including factory overhead and crating expense.
2. List prices of all competitive products and evaluate their various advantages or disadvantages. We take as a basis for comparison the jobber's price, as this will be our lowest selling price.
3. Add 33⅓ per cent to factory cost to cover sales and promotional expense and an additional 10 per cent to cover salesmen's commissions. This would be the minimum that we could sell for, without taking an actual loss. These are compared with the selling price of an equivalent competitor's unit. The selling price of our unit is then placed at about the same figure, providing it allows a markup of 45 per cent minimum or 60 per cent maximum. If the competitor's price is above the 60 per cent we set our price 60 per cent regardless. In the event the competitive price is below 45 per cent, we compare feature against feature to determine the reason for the discrepancy and either modify the product or stress the particular advantages which make up the difference.
4. On certain items which we sell to manufacturers who buy in quantities and require comparatively little promotional work, we set up a tentative price schedule as indicated above, but will modify this if competition requires to as low as a 30 per cent markup.
5. We endeavor to calculate our profits on a percentage basis of the cost, which we endeavor to maintain at between 5 and 10 per cent of the cost of the unit.

Package medicines:

There is an old rule that has been used in our industry, which is fairly satisfactory if considered as a general rule but of which there should be modification to fit the product or the conditions under which one conducts his business. That rule is ⅓ cost of product, ⅓ cost of promotion, ⅓ profit.

Today very few firms ever think of trying to obtain as wide a profit margin, however, as 33 per cent, and I would be inclined to believe that more products are sold nearer to a 10 per cent profit.

Paints and varnishes:

In establishing a net jobber's price we take into consideration the price of directly competitive products and then endeavor to average 30 per cent gross. Regular dealer prices are figured with standard discount above the net basis. Selling costs run between 7½ and 10 per cent, depending upon territory, and this, as well as overhead and advertising, must come out of gross profit.

We believe 10 per cent on sales is a fair net profit for the manufacturer.

Paints:

1. We secure an accurate figure on the cost of manufacture of the product.
2. To this base cost we add a given percentage to cover cost of doing business. This gives us our full selling cost.
3. We next consider what the product is worth to the consumer:
   a. On its own merit.
   b. In relation to competitive products.
4. Assuming that our full selling cost justifies a lower price than the actual worth to the consumer, we then consider whether the adoption of a lower selling price would stimulate greater consumer purchasing, resulting in a larger volume of yearly profit, even though the percentage of profit on an individual sale would not be so large.

Paper specialties:

In the case of goods sold through dealers we first determine what we think people will pay for the product and then we attempt to construct the cost structure to fit the market price. In the case of special made-to-order goods we look up the last price; if costs have changed since then we may adjust the price in ratio to the cost. If we lost the order the last time or if competitive conditions are keener than the last time we may quote a lower price or a lower ratio of price to cost. If, on the other hand, the market has improved, we may try for a higher price or a higher ratio of price to cost.

Petroleum and its products:

We look at our base cost, add thereto the cost of sales, including commissions, traveling expenses, and so on, the cost of delivering and warehousing and other miscellaneous expense, the cost of advertising, and the cost of general and administrative overhead.

The above computation is, of course, figured on average prices based on an extended period and the expected profit is figured into this, generally on the basis of from 6 to 10 per cent gross.

This figure is then compared with competitive prices considered as to trade conditions and any other pertinent data and is established as a distributor price. We then establish a distributor margin of from 25 to 30 per cent above this figure and arrive at a dealer price. This is again checked with the market position and general conditions. Finally, we compute the dealer's profit and arrive at the consumer price in the same way.

Lubricants:

The basic factors in determining selling prices on lubricants are costs and competition. Having found our costs, we must then consider competition and strike a fair average selling price.

In establishing a price on new products, we give consideration to

1. Cost of manufacturing products
2. Packages and packaging cost.
3. Average transportation cost.
4. Average marketing cost.

After considering the cost element, we make a survey of the market for products of the character in question, giving consideration to potential market from a volume standpoint and to how the product must be sold.

We then ascertain prices at which competitive goods are sold; consider the quality of the material offered; advertising and sales-promotion methods used, etc., and, as a result of all factors, establish a selling schedule and discounts, develop sales-promotion literature, advertising, etc.

Lubricants:

After considering the cost, freight, available demand, cost of operations in the various territories, and competitive

markets, we endeavor to obtain a price that will give us a fair margin over operating expenses. In many cases this resolves itself into an attempt to produce and manufacture at a low enough cost as will allow us to invade a market and make a profit. An examination of our balance sheets over the past few years does not indicate that we have been very successful in either case.

Public seating:

Production costs are based on approximately 60 per cent of capacity. To this is added the estimated administrative and sales cost plus a profit margin of 5 per cent. On this basis, the company, as a leader in the industry, can expect competition to keep within reasonable range of its prices On this basis and with careful management the company can be expected to break even at 40 per cent capacity.

Refrigeration, radio, automobile accessories:

In refrigeration and radio prices are practically fixed by the dominating factors in the industry and unfortunately, rather than being able to build your product and setting your price accordingly, it is necessary to work back from the price which is set by competition and endeavor to manufacture at a price which will enable you to give the customary trade discounts and still retain a profit.

As to automobile accessories sold through retail channels (jobbers and dealers)—here we know the fixed discounts which have to be given to jobbers and when our costs have been arrived at, we figure our selling price by, first, adding the margin of profit we require; taking that as a base, we fix the selling price which will give the jobber a discount of 50 and 10 per cent, the dealer $33\frac{1}{3}$ per cent, and our net, equal to the cost, plus the margin of profit which we are entitled to.

Soap products.

Generally, it is considered reasonable to realize a 100 per cent markup of factory cost to determine the net price realized.

Out of the manufacturer's gross profit all administrative, selling, advertising, and distribution charges must be paid, leaving a possible net profit of 15 to 25 per cent, depending on volume and efficiency of management. Minor fluctua-

tions in the cost of raw materials are absorbed by the manufacturer; major ones are reflected in prices.

Tire chains:

In determining price we take our factory cost, add our administrative and selling costs; add a required profit; and multiply by the factor which establishes the list to enable us to allow the discount we have determined for the jobbers. We consider profit on sale and not on the cost.

If we have a patented device where the consumer is willing to pay for the article, its worth to him determines the selling price. If it is a competitive item, the market will determine the selling price and this would apply regardless of whether it was competitive from another manufacturer making a similar article or whether it was competitive with some other device or material which might be used for the same purpose.

Tires, tubes, and accessories:

Calculating profit in price:

By addition of factory cost to platform, administrative, sales, safety factor of anticipated increase or decrease in raw material 6 months in advance, plus not more than 10 per cent profit.

Calculating selling costs in price:

Total of warehouse expense, sales personnel salary, and expenses used as a percentage on dollar cost.

Price formula used:

Governed by competitive conditions which might write down the theoretical price.

Business philosophy:

The policy of building the best product and letting the price rise sufficiently high to show a profit, rather than setting a price and building the product to fall within that price range.

What should determine a fair profit to the manufacturer?

Sufficient margin to guarantee against losses in raw-material commitments over and above regular cost

Other considerations:

In rubber industry destructive competitive conditions force all companies to take a larger amount of business at a loss.

Spark plugs:

"The industry, for years, has been dominated by two large manufacturers and as far as price fixing is concerned they lead and the rest of us follow."

Work clothing, overalls:

1. Cost of materials.
2. Cost of direct labor.
3. Factory overhead; estimated at 27½ per cent of the amount spent for direct labor (and consisting of factory supervision, incidental labor, factory rent, power, water, depreciation, and miscellaneous factory expense). This constitutes our factory cost.
4. To this factory cost is added 33⅓ per cent to cover distributing expenses and profits. On the above basis, under normal conditions, we hope to make a profit of possibly 5 per cent on sales.

Men's, women's, children's hosiery:

1. Our manufacturing and distributing cost by types of product.
2. Prices quoted by our principal competitor—branded and unbranded
3. Statistical position of the industry as to production rates and rates of sale; unfilled orders and stocks on hand.

In setting the price of any individual product or any line of products the order in which the above factors are considered may be different from the order in which we consider them in setting the price on some other product in our line.

Men's shirts and pajamas:

In our line of business there seemingly have developed over a period of years certain price grooves. In setting our wholesale prices we have found it necessary to assure the retailer a markup on the retail selling price of anywhere from 37 to 47 per cent (gross profit on the retail selling price). Therefore it is necessary for us to set our wholesale price in each of the retail price grooves to assure the retailer these markups.

In determining a fair profit for ourselves we have to budget closely the items of expense, forecast anticipated volume of business, and determine the percentage of gross profit necessary to cover expenses and leave a percentage of net profit. This should run anywhere from 5 to 10 per cent.

In some instances the percentage of profit on certain items is much lower than on others. This is done for volume purposes, and lower percentage of gross profit is equalized by putting a higher percentage of profit on other items which

seemingly can sell at the necessary price to give this increased percentage.

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CHAPTER XIII

Price Policies and Trade Discounts

Elementary Policies.—Even the old lady with a pretzel cart peddling her wares on the corner of the street has established price policies, although she does not know it. She sells for cash and has but one price. From the street hawker to the greatest mercantile establishment, every business must adopt some sort of policy for pricing. The one who sells one way one day and another the next or at one price to one customer and a different price to others will probably never become an influential factor in trade.

To sell for cash or to extend credit is one of the elemental decisions to be made. If credit is to be extended to customers, the terms offered should be fixed and uniform. Two per cent in 10 days or 30 days net are the usual minimum terms. The 2 per cent is supposed to represent both the use of the money and the cost of making collections. It dates back to the time when 1 per cent a month was not an unusual rate of interest. Now the firm which does not take advantage of the saving provided by cash discounts is seldom regarded as an A1 credit risk.

Whether to sell at one price or extend quantity discounts is another question of importance which should be decided and adhered to. The scale of discounts should have a definite relationship to the economies in selling provided by each level. Much more will be said about these discounts in a later paragraph.

Are trade discounts to be applied to different classes of customers, and if so how are they to be established? Obviously there is a close relationship between prices and profits, so that some basic principle of fixing profit must be established and

prices providing that profit arranged. Each of the policies mentioned involves careful consideration if the desired profits are to be realized.

Few Make Money.—As noted elsewhere, even of our best business concerns—those whose stocks and bonds are listed on the New York Stock Exchange—less than half are able to pay dividends one year after another. Churchill[1] points out that of more than 400,000 incorporated firms in the United States 167,000 reported deficits in their income-tax reports for 1928, which was one of the most prosperous business years for which there are records; while in 1932, the worst of the depression years, 369,000, or 81.7 per cent, of the incorporations failed to make operating expenses The average life of a grocery store is 7 years. Many others are little better To say that inadequate profits are to be blamed for all these failures explains nothing. To establish prices that will yield a profit will remove or remedy at least one common cause of failure

After buying materials and paying wages and other conversion costs, there must be something left over for profit. To know operating costs with certainty acquaints the operator with the margin that he must secure in order to meet expenses. Profit is the added income after paying all operating costs—rent, wages, interest, depreciation, and all the other expenses of a business

The ideal price, as already pointed out, is the one that provides the greatest surplus. Critics of our business system call this a "monopoly price" or "what the traffic will bear." This is the maximum profit; the price is so placed that the number of customers will decrease if the price is higher, that less profit will result if more is charged. If the price is reduced, the number of customers will not increase enough to provide the same profit. Whatever that price may be called, it is still the common-sense way of selling. What would possibly dictate any other policy?

How Are Prices Set in Actual Practice?—When the country storekeeper in a little town in Indiana looks at the quotation of eggs in the morning newspaper and sees them quoted at 23 cents a dozen in New York, he deducts 6 cents from that for his purchasing price. Eggs in the metropolitan centers of Philadelphia, New York, and Boston sell wholesale for about 6 cents more than the storekeeper pays—a sufficient margin to make them profit-

[1] W. L. Churchill, "Pricing for Profit," The Macmillan Company.

able. Eggs in most of the great cities are sold by auction, and the law of supply and demand is immediately operative. Similar market quotations guide the drover buying hogs, sheep, and cattle for shipment. But price making for these two middlemen is a vastly different thing than for the manufacturer.

When Henry and Edsel Ford sat down in the spring of 1927 to figure a price for their Model A automobile, they were too far removed from the effects of the law of supply and demand to receive much guidance from it. They had already built and sold 16 million automobiles. They knew from this experience that, if they could operate their factories at the rate of 2,000 finished cars or more a day, they could sell them to consumers at $600 to $700 each. They also knew that to sell 2,000 or more cars a day the price must not exceed those quoted. As mentioned elsewhere, nails in the hardware store, sheetings and calicoes in the dry-goods store, rubber overshoes in the shoe store, and sugar in the grocery store were sold for many years without profit. They were the items on which customers could easily compare prices. Qualities were about the same, so prices were supposed to be a sort of index of the store's general prices, high, medium, or low.

If all prices had been made with the same lack of margin the store could not have remained in business long. So other prices, those on goods that could not be so easily compared, were "loaded"—that is, made higher than was regarded as a necessary margin for store operation. Almost no one knew just how many goods should bear a loaded price or what sum of money would be necessary to make up for the loss on the staples. The same thing is still largely true of loss leaders. That is one thing that makes them so objectionable. The merchant knows something of the relationship between his legitimate advertising and his sales. But how much loss must be sustained with a loss leader to produce $100 sales is seldom better than a guess.

Most manufacturers base their prices on information provided by cost accounting and by experience in estimating the expenses that are not revealed by actual records, such as the influence of style.

The play of competition is always a factor. If competition is active, the most efficient operator may set the price, while the others sacrifice profits, or even incur losses, to meet that price. Sometimes a market becomes so demoralized by price cutting

that no one makes any money. In that case, the weakest operator in the field may set the price. In sheer desperation to raise money he may offer prices which mean a loss to all sellers who adopt them. Sometimes the aid of the FTC may be enlisted to prevent the unfair trade practice of selling at a loss. However, this is seldom either practical or effective. Governmental action is notoriously slow. Failing competition is said to be the worst of all competition. It means that when an operator persists in selling at a loss, either through ignorance of costs or because of the pressing need of immediate funds—in which case he will hope to recoup his losses later—there is little opportunity for anyone to make money until the trade demoralizer is removed from the field.

Trade Discounts.—If one has but one class of customers, like the firms which sell direct to consumers, there is no problem of trade discounts. This is true to a less extent with the company that sells direct to the trade, like manufacturers of men's ready-to-wear goods. If, however, a manufacturer who sells direct to retailers, like the producer of paints and varnishes, has some customers, such as large factories, which buy in quantities large enough to constitute separate shipments, those customers may feel that they are entitled to buy at less than retail prices. The producer then is confronted with a problem of trade discount. Will he extend the same price to the quantity buyer that is given to the trade? Custom sometimes rules. If the institutions buy in the same or larger quantities than the stores, and if there is no probability that goods sold to these institutions will interfere with the store's trade, then the same price is commonly given each for similar quantities. Food companies and food wholesalers are both confronted with this problem in supplying hotels. Further, there are food companies which sell only to hotels. No one trade practice is so well established as to be general.

Where middlemen other than the retailer intervene between producers and consumers, a system of prices becomes imperative. If more than one channel of distribution is used, then the price structure may become highly involved. For example, a paper manufacturer brought out a new toilet paper which he wanted sold through as many outlets as possible. He also wanted to maintain the retail price at 10 cents a package. After much study the following schedule of prices was adopted:

It was packed a gross to the case, which meant $14.40 to the consumer of 10 cents a package.

As 25 per cent of selling price is ample for grocers, and as they are likely to cut prices if given more, the price to them was fixed at $10.80 a case.

Wholesale grocers were given a price of $8.80, which provided for their usual 12½ per cent with something over.

Drugstores, which require about 33⅓ per cent of retail price, were given a rate of $9.60.

Wholesale druggists get about 15 per cent of their price to retailers on this kind of merchandise, so their price was $8.15.

Department stores ask 40 per cent on selling price, so their invoices called for $8.60.

Drug chains, also in the 40 per cent markup class, were given the same price, $8.60.

Grocery chains were charged slightly more than wholesalers, 37½ per cent or $9.00.

That illustrates the difficulties of pricing for different channels of distribution. In the large cities the result was satisfactory for a time. In the smaller cities and towns, the old question of what constitutes a department store was always answered by salesmen in favor of the customer, so that many stores received a lower price than the wholesalers who supplied their competitors.

Another difficulty was that the leading competitor had an entirely different pricing setup. Because of these difficulties this schedule was subsequently changed and simplified. With fewer types of middlemen there might have been less criticism. Dr. Paul H. Nystrom predicts that manufacturers who have a logical outlet in both chains and independents will have to choose between them in the near future.

It is evident that full-service wholesalers, who help to build a business for a manufacturer, should be given preferred treatment as compared with a chain or a department store. Especially is this true if the wholesaler does not go into competition with his manufacturers, who supply him advertised brands, by establishing private brands for the same kinds of goods bought from sources which do not advertise their products. In other words, the wholesaler who is content to make a profit by selling advertised brands should be rewarded for going out and placing goods with small retailers.

Payment for Specific Services.—In the chapter on Evaluating Wholesalers' services, it is shown that wholesalers vary widely as to the services they offer manufacturers. It is obvious that the costs of operation of each type of wholesaler will vary in proportion to the amount of service he provides. It would seem logical to set up a price schedule which would remunerate the middlemen for the actual services performed. This idea is not new. Both the General Electric Company and Westinghouse Electric Company tried it out with their distributors of light bulbs a few years ago.

TABLE 14.—PERCENTAGE OF OPERATING EXPENSES TO NET SALES

	Per Cent
1. Full-service and limited function wholesalers	12
2. Manufacturers' sales branches	11
3. Manufacturers' sales offices	6
4. Bulk tank stations	14
5. Agents and brokers	2
6. Assemblers	6
By kinds of wholesalers' business	
1. Amusements and sport goods	17
2. Automotive	16
3. Beer, wines, and liquors	13
4. Chemicals and paints	16
5. Clothing and furnishings	13
6. Coal and coke	9
7. Drugs (full line)	12
8. Drug sundries (specialty)	20
9. Dry goods (full line)	14
10. Dry goods (specialty)	11
11. Electrical goods	17
12. Farm products (raw materials)	6
13. Farm products (consumer)	10
14. Farm supplies	12
15. Furniture, house furnishings	13
16. General merchandise	7
17. Groceries (full line)	8
18. Groceries (specialty)	13

As these bulbs are sold on consignment through agents it was possible to arrange a system of discounts which in theory remunerated the distributors in proportion to their efforts to sell electric lamps. For orders filled out of stock, 2 per cent was allowed for warehousing. For cash remitted within a designated period, 3 per cent was granted for collections. For selling, 5

per cent was allotted, and another discount for increasing sales, and so on for each service performed. *B* agents, who also performed some wholesale functions, were given an added discount for establishing new *A* agents. Discounts here are not accurately given, but they illustrate the idea.

The plan was abandoned after a few months. Various reasons were given, but the chief difficulty seemed to come from lack of agreement on the remuneration for the different services. None of the agents kept their books to show what the actual cost to them was for the various functions, so they were not in a position accurately to judge of the adequacy, or inadequacy, of the various rates of remuneration.

The list (Table 13) of middlemen and the approximate cost for each have been computed from various sources and are reasonably accurate as an average. The census reports on distribution costs have provided many of the basic figures. Other sources have been credited for specific items.

What Is a Quantity Discount?—Closely associated with trade discounts is a price reduction which is allowed because of purchasing in quantities and is thus called a "quantity discount." Some businessmen do not distinguish between the two. It is apparent that it costs less to sell one buyer $1,000 worth of merchandise on a single order than to sell 20 buyers each $50 worth. Not only is there less expense in selling, but the amount of work involved in credit investigation, in making out inventories, accounting entries, and bills of lading is about the same whether the amount involved is $10 or $100. One firm selling hardware insists that there is much more work involved in making an invoice for a large order than for a small order but admits that there is a saving in selling large quantities rather than small.

Some firms do not reduce the price at the time of purchase no matter how large the quantity, but at the end of a given period—6 months or a year—remit according to a scale of discounts earned during the period. For example, if the volume bought amounts to $1,000 a discount of 5 per cent is allowed; 4 per cent on amounts between $750 and $1,000; 3 per cent for $500 to $750, etc. This is called a "cumulative quantity discount." The idea is not the same as in extending a series of prices which is lower as the sale increases in size. If one firm buys $1,000 worth in 6 months, involving the filling of many separate orders, the

actual expense of selling him may be as great as selling to ten different buyers, who during the same period each buy $100. In the cumulative discount the idea is to get and retain all the customer's business.

Discounts which are placed on a cumulative basis are usually so graded that a buyer cannot divide his order without increasing the cost of his goods. For example, one discount series ran thus:

Up to $25	Net
$26 to $50	2%
$51 to $100	3%
$101 to $200	4%
$201 and over	5%

If the buyer of any of these quantities should divide his purchases, he would not "earn" the maximum discounts.

The quantity discount may be operated in conjunction with a trade discount, as when the jobber is given 30 per cent off the retail list and if he buys a larger quantity he is given an added 5 per cent. So with the wholesaler and the retailer. A customary trade discount may be augmented for stores which buy in more than average quantities.

One Price or Quantity Discount.—There is a wide difference of opinion among businessmen as to whether quantity discounts constitute good business practice, even if they are equitable. To get a sample of the practice in different fields the authors wrote several hundred leading firms in different kinds of business, and the following is condensed from the answers received. The arguments for quantity discounts are as follows:

1. It costs less to sell in large quantities than small. (This was discussed above.)

2. The distributor who risks his capital by laying in a large stock should be given a reward. A price concession is appropriate.

3. Large orders facilitate quantity production in the factory and so reduce manufacturing costs.

4. The quantity purchase is necessary to stock and maintain a full line. This tends to increase sales. (This from a paint manufacturer.) One drug house offers "a quantity price on a quantity assortment."

5. Savings are made in selling time, invoicing, packing, shipping, collecting, and record keeping. There will on the average

be more credit loss on $10,000 worth of business divided among 50 accounts than on the same amount between two credit risks.

6. The wholesaler or retailer who buys in quantities usually does more to promote sales than the one who buys little at a time.

7. Quantity discounts tend to make distributors more loyal; this is particularly true of cumulative discounts.

There are a great many firms and some whole industries which follow the one-price practice. They are by no means idealists who have a particularly high moral standard, although some put it on the basis of fairness. Most firms which have adopted the one-price policy have done so for business reasons. They maintain, among other things, that

1. The distributors are in direct competition with each other To sell with a quantity discount puts the larger firms at a great advantage over the smaller, who in their own territories may be serving as well as the greatest of their class.

2. All injustices are avoided by a one-price policy. A price structure which graduates prices for different quantities must at best be founded largely on guesswork.

3. It is much easier to maintain prices if a single rate is offered to all.

4. Bookkeeping and accounting are very greatly simplified by a one-price policy.

5. Where a lower price is allowed a large distributor it is assumed that he will promote sales more effectively, which is seldom true. It is impossible to grade the ability and willingness of middlemen to stimulate business, so price variations are futile.

6. "The United States Government sells at one price—we will sell the same way," was the answer given by one firm. When this was quoted to another firm, the response was: "The government may sell at one price but it does not buy that way."

7. There is no temptation for distributors to overstock as when quantity discounts are offered as inducements.

We believe the above to be a fair summary of the arguments urged for and against offering quantity prices. There were some answers to the questionnaire which were neither "yes" nor "no." One firm stated that it had two prices, one for carlots and one for less than carlots, the difference representing actual difference in the cost of handling the orders. Sheet steel mills and wholesale

paper houses have a custom of adding a premium charge for shipments of less-than-standard units, for broken reams and other packages.

Who Do and Who Do Not Use Quantity Discounts.—There is little uniformity in pricing even between competitors. In the food industry canned milk, cheese, English walnuts, canned meats, soups, raisins, and some cereals operate on a one-price basis. Others give limited discounts.

In the automotive field tires are commonly sold on an extensive price range. One manufacturer starts his discounts at 2 per cent for sales of $500 to $749, then adds by steps of 1 per cent to 15 per cent for $15,000 and over. This is somewhat extreme, but other manufacturers also have long lists of discounts.

In the automobile-accessory field, the trend is rather to flat prices or a very limited scale of discounts. The same thing is true in building-materials and equipment business. Some oil burners, wire products, boilers, radiators, and stokers reported one price: This was also true of builders' hardware. Then air-conditioning equipment, building board, and other oil burners include a series of graduated prices.

Clothing and hosiery are also mixed. Men's suits, hosiery, corsets, and knitted goods were primarily one-price with haberdashery offering a series of discounts.

These are typical of all the firms which replied to the questionnaires and of other businesses with which the authors have a firsthand acquaintance. There is no uniformity of practice and no general principles which seem to govern the methods of making price structures, except that in the industrial field bid prices and actual handling costs tend to regulate prices.

So far this chapter has discussed manufacturers' pricing methods as fixed for distributors. A few words about quantity prices for consumers may be of interest. Common observation reveals an almost universal practice in retail stores of offering a lower price for a larger quantity. An investigator for the authors in a few hours reported 24 items offered at discounts varying from 1.9 per cent on books in Liggett's to 32.07 per cent for a mouthwash in the same store. In all, this investigator shopped in eight different stores in the primary retail area of New York City and in none of them did he fail to find some goods offered at a discount if a quantity was taken.

However, it is in the field of transportation that the greatest discounts are found. The difference between a one-way fare and round trip on railways running out of New York City varied from 0 to 16.67 per cent, while monthly commutation rates ranged up to 75.31 per cent off the one-way rate. United Airlines granted 10 per cent reduction for a round trip, while the leading Atlantic steamship companies granted a reduction up to 12.7 per cent for the return. The Pacific ships on tourist class offered a return at 25 per cent reduction.

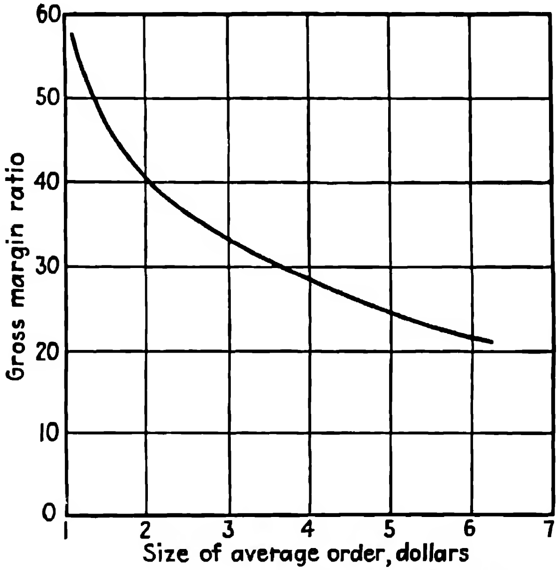
Leading hotels varied their prices from day to month by 14.29 to 25 per cent. The telephone company charges $4.25 for 66 calls in New York City but reduces the charge by 37.89 per cent as the number is increased. Subscription rates to metropolitan newspapers are discounted up to 37.89 per cent for time (quantity) orders. Magazines quote a yearly rate of $2, or 5 cents for a single copy, which is 23 per cent. Newspaper advertising rates are fantastic as they differ for length of time, frequency of issue, quantity, kind of display, and classes of goods. The difference of price is as much as 100 per cent. In addition a trade discount is given advertising agents. Even the United States Government sells a small stamped envelope for 4 cents while 1,000 can be bought for $31.72, or a discount of 20.7 per cent.

In consumer purchases, it seems that quantity price is the rule. Yet it is the opinion of many, even of those who use quantity prices, that in manufacturers' pricing the trend is to a limited list of discounts. These are to be given for a specific saving definitely related to costs involved in the transaction.

How Selling Costs Are Governed by Size of Order.—The relationship between average size of order and the gross margin ratio needed to break even on an order is shown for a group of confectionery manufacturers in a recent report of the Bureau of Foreign and Domestic Commerce, entitled "Meeting the Small Order Problem in the Confectionery Industry." For example, the report shows that for this group an item with an average order size of $2.00 requires a gross margin of 40 per cent to break even or to offset the distribution expense on the order. Where the gross margin is 25 per cent of sales, the average sale must exceed $4.65 to show a profit, it was found. On the following page this relationship is shown in chart form.

Any observation on the curved line of this chart indicates a break-even point for a given gross margin. It is pointed out that, while this chart is based on averages, the curve is sufficiently accurate to cover the majority of items sold in this industry and serve as a guide to sales activities.

The break-even point for any item now showing a loss, the report states, can be calculated by dividing net loss on the average sale by gross margin (in terms of per cent) and adding the results to the present average order size. It is explained that this method allows for the additional production costs on the



This chart is for the confectionery business in the western states. The gross margins are indicated on the curve for the break-even point for orders ranging up to $6

increased order size. For example, to determine the break-even point on an item showing a loss of 21 cents on an average sale of $2.15 with a gross margin ratio of 34.2 per cent; to $2.15 would be added the results of 21 cents divided by 0.342, or 61 cents. That is, a minimum order size of $2.76, must be obtained before this particular item will show a profit.

The break-even point on items now showing a profit can be determined by reversing the process, the report states.

The value of determining the break-even point and establishing a minimum order size for various items is shown in this study of the operations of representative manufacturing confectioners in the Pacific Coast and Rocky Mountain states. It was found that 82 per cent of all orders and 74.5 per cent of total sales volume are concentrated in 17.3 per cent of all items carried, which were ordered more than 50 times in 6 months. It was also shown that this group of items ordered most frequently occasioned an average net loss of 2 cents per order, while all other groups, ordered less frequently, showed a net profit. The average order value of those items ordered more than 50 times in a 6-month period was $2.78 and they had a gross margin of 35.9 per cent, both of these figures being lower than for any group of items ordered less frequently.

Thus it was found that if this group of confectionery manufacturers maintain the same gross margin and the same prices to the distributor, they can make a profit on this large volume of business on which they are now losing money if they can increase the size of orders to bring them above the break-even point.

Table 15 shows the need for raising the average order value of items ordered most frequently. The figures are averages for representative manufacturing confectioners in the Pacific Coast and Rocky Mountain States.

TABLE 15.—RELATIONSHIP OF THE SIZE AND FREQUENCY OF ORDER TO NET PROFIT FOR CONFECTIONERY

Number of times ordered	Per cent of total sales	Average order value	Gross margin ratio	Distribution expense on average order	Net profit on average order
Once in 6-month period	1 2	$5 89	37 9	$2 04	$0 19
2 to 9 times	7 1	5 42	36 1	1 68	0 28
10 to 24 times	8 2	4 37	38 9	1 54	0 22
25 to 50 times	9 0	3 84	40 1	1 38	0 16
Over 50 times	74 5	2 78	35 9	1 02	0 02
Average	100 0	$2 943	36 1	$1 046	$0 016

Fixing Quantity Discounts.—The theory is that quantity discount is a way of passing along part of the saving to the buyer, which he makes possible by placing his orders in such a way as

to provide the maximum economies for the seller. As shown in a previous paragraph, sometimes the saving is definite and easily calculated, as in carlot buying. Where the quantity discount is so arranged that it bears no relation to the different costs of selling, which at best are distant and incalculable, the purpose is to monopolize the buyer's business. It is presumably for this type of discount that the Robinson-Patman Act gives the FTC power to review these discounts and to revise them if they are thought to be unfair. The act also seems unfriendly to sales contracts which earn cumulative discounts.

In order to provide a more comprehensive picture, in Appendix D are given extracts from reports on questionnaires from many businesses in some of the leading fields of manufacturing. Where the practice was very similar, one or two typical cases are presented. In others—like automobile tires—several are presented to show the variations in preparing a price structure in a highly competitive field, where price is, or is thought to be, a determining factor.

Conclusions from Reported Practices.—The lack of uniformity, the absence of fixed principles, the failure to consider basic economic laws in fixing prices is apparent in these numerous reports as well as in the codes developed under the National Recovery Act. These omissions convince careful students that businessmen have not given the vital subject of pricing the study it is necessary to give it before business can be placed on a scientific basis. The sale of investments (or in popular terms, the "stock market"), the regulation of utilities, and the development of a taxing system that will not cripple business while providing revenue are all handicapped by the lack of an acceptable pricing system.

However, some specific observations may be made which indicate what is being done rather than what should be done, from an economic aspect.

1. There is a large amount of guessing in the present pricing customs.

2. Most businessmen reporting rely on experience in fixing prices and profits. In the past they have found that certain prices produce profits and rely on that condition to continue.

3. Where labor, or conversion costs, are high in proportion to material costs, the requirement is for a higher profit margin.

4. The less stable the demand is, the greater are the selling costs and consequently the larger the gross profit necessary.

5. Where a few companies tend to dominate the industry, the practice of "follow the leader" in fixing prices, with a hope that there will be some profit, is more prevalent.

6. With products like flour, for which prices are fixed primarily by auctions over wide territories, the practice is to keep the plant busy, if possible, and let profits take care of themselves.

7. Little attempt is made by manufacturers of a family of products to maintain a uniform scale of profits. On the contrary, it is commonly assumed that the more staple products show the smallest percentage of profits, while the specialties produce liberal returns over costs. The meat industry is perhaps the most striking example.

Further study of the codes will permit of other generalizations, but such study will be of limited value. We would prefer to follow one business concern which fixes prices and profits by carefully ascertained costs over a considerable period of time than to follow an average course decided on from the investigation of any number of firms which operate on hunches, or guesses, which seem so prevalent.

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CHAPTER XIV

Price Making and New Legal Restrictions

The Competitive Price.—"Our prices are fixed by competition" is a statement that may be true at a particular time, but the other fellow's price probably also was made to meet that of a competitor. However, there must have been a definite influence that set the lowest price, the final price. Inevitably there are some ubiquitous conditions that determine it. Perhaps for reasons that seemed to justify the action, it was decided temporarily to accept business at a loss. In considering the amount of loss that could be sustained, the cost of producing the goods must be considered, or the administrator loses all control of his business. If he makes prices without knowing the amount of profit or loss involved, there is little likelihood that the business will long continue.

The point is that cost—someone's cost—will determine the lowest price. If *A* is a smaller operator and adopts the policy of following *B*, the leader, in making prices, then it is *B*'s costs that largely determine *A*'s prices. If *A* is so advantageously situated that he can produce an item for less than it costs *B*, he may still prefer to follow *B*'s prices, content with the larger profit that his favorable position makes possible. In that case it is still *B*'s costs that control *A*'s prices. During price wars, when profits are recklessly sacrificed and discretion thrown to the winds, standards and costs are disregarded, and the war continues until the losses become so unbearable that the weaker contestant retires from the fray. Of course, business cannot long be conducted on the policy of underselling competitors regardless of costs. Usu-

ally it will be either the largest or the most efficient operator who survives.

For many years a leading cheese manufacturer insisted on keeping his prices slightly under those of the principal competitors. Then the management of one of the other large producers changed. The new manager gave notice that in future his prices were to be the same as those of his larger competitor. Asked if he wanted to start a price war, he replied, "Certainly not, but my price is going to be the same as yours, or lower." "Do you realize what a price war with our company involves?" he was asked. "I realize that for every dollar we lose you will lose three or four," was his belligerent reply. There was no price war. The larger company by its size had theretofore been able to bluff its competitors. Neither the size of the firm, with its great assets, nor its extensive sales provided a sufficient advantage in production costs so that it could withstand a price war without depletion of capital. This is an example of competitive prices, which as usual are controlled by costs. With good business firms there is an allowance for profit as a necessary ingredient of all prices. Without profit no firm can remain in business.

The Small Operator as Price Maker.—Contrary to the general impression, it is often the small operator or the "little fellow" in distribution who sets the price.[1] In the petroleum industry, the chain gasoline stations have grown up largely to rid the field of the price cutters, who were usually "independents." When business was slack or the competition of the neighboring chain station encroached too far on his sales, the independent cut prices. He might not be able to provide so convenient or so attractive a place of business as his more affluent competitor, but he had less investment and less pay roll. If he and his wife attended to customers, he was often content to accept smaller profits. He regarded the opportunity to keep himself in a job as fortunate. If he could sell 200 gallons with a 3-cent margin, he was better off than if he sold 100 gallons with a 4-cent margin.

As price is a prime factor in selling branded gasoline, a differential of even 1 cent a gallon has a striking effect on buyers. In populous districts, especially, gasoline stations are so close

[1] W. Hamilton and Associates, "Prices and Price Policies," McGraw-Hill Book Company, Inc., p. 170.

together and it is so easy to publicize price that all dealers of a neighborhood tend to keep their prices together. Most motorists are not sufficiently wedded to a particular brand so that they will refuse to accept one of the competing brands of the same class at a slightly lower price. But if the differential is too great, the typical motorist becomes suspicious. While he welcomes a reduction of 1 or 2 cents a gallon, he shuns an offering of 17 cents when he has been paying 22 cents for his favorite brand.

The weakness of the chains is that they cannot act independently. If one of the chain stations cuts the price, those nearest will find it necessary to follow. Their superior service and attractive equipment require a wider margin for existence than the one on which an independent can squeeze through. Furthermore, the gasoline chains invest so heavily, even extravagantly, for choice locations that a large fixed charge adds appreciably to overhead costs, as compared with those of most independents.

Further Study of Costs Needed.—In the tables of functional costs (chapter on Evaluating Wholesalers) breakdowns of a few different items of expense are given for wholesalers and retailers. Although this type of information is justifiably held confidential for individual firms, there is a large amount of it available for those who participate in collecting data. Extensive studies have been made by retail and wholesale associations, by colleges, by business publications, and by advertising agents, but very little comparable information is available for manufacturers. Some cost studies have been made on production, and the information thus gathered has been exchanged in a limited way by a few manufacturers in the same line of production. But very little is available on sales costs of those who make the goods. The expense involved in selling varies all the way from nothing to 75 or even 80 per cent of sales volume. Where a manufacturer contracts with some large distributor to take his whole output, he has no selling expense. In contrast, the manufacturer who sells to consumers and assumes the responsibility of instructing those consumers in the use of his product may find that as much as 75 per cent or more of his costs are for advertising and selling. This was true at one time of the Burroughs Adding Machine Company.

Reluctance to exchange information on sales costs has left most manufacturers still working on the trial-and-error methods. Those who make automobiles differ widely in opinions as to the

amount of advertising that can be done profitably to sell each car. They do not know what the best records have been, or how those records were produced. They do not know what would be a reasonable turnover of sales agents. At one time, and this was at a highly prosperous period of business, it was estimated that one-fourth of the dealers went out of business each year. Since the exact costs of establishing an agent were not known, it was not known how much money could be spent profitably in developing agents. It was the practice to allow dealers from 20 to 30 per cent discount from retail prices—the higher the price the greater the discount. But there was usually an advertising assessment that went back to the manufacturer, and dealers were expected, and sometimes obliged, to do some local advertising. Advertised retail prices were based on delivery at the factory; so the agents added "transportation charges," which did not mean transportation *costs*, but allowed an opportunity to swell the margin over the contract discounts.

This has been reviewed to indicate the paucity of information concerning sales costs in one of our largest and most progressive industries. The data in other industries are no better; in fact few are so good. Lack of exact information about costs, particularly sales costs, leaves the manufacturer in the dark when he names his prices. More than 900 different automobiles have been put on the market, and of these only 30 survive. Few industries have fared better.

Churchill Reviews Profits.—On the same subject W. L. Churchill had the following to say before a meeting of the American Marketing Association:

Of the more than 400,000 incorporated concerns filing income-tax returns for 1928, more than 167,000 of them reported deficits. In 1932 more than 369,000 concerns, or 81 per cent of all that filed returns, reported deficits. The average number of corporations reporting deficits since 1920 and to 1933 inclusive was 47 per cent. That means that very nearly one-half of all of our incorporated enterprises, year after year, operates at a loss.

The 167,000-odd corporations reporting deficits reported their deficits as amounting to $2,160,000,000, or more *than double* the total corporation income taxes of $1,060,000,000 paid by the 257,000-odd concerns that reported net income for the year 1928. The concerns reporting deficits had gross incomes aggregating close to 25 billion dollars. For each dollar that they received they spent $1.09 for the

products and services that they delivered. Collectively they dissipated more than $2,000,000,000 of our accumulated wealth by giving their customers a part of their assets along with the goods and services sold to them.

Were all of our corporations conducted upon a basis comparable to our fully successful ones, the aggregate of net earnings for 1928 would have exceeded 30 billion instead of the slightly over 9 billion reported. Our income-tax collections for 1928, using the tax rate that prevailed that year, would have exceeded $2,300,000 instead of the $1,050,000 that was collected.

Much confusion has resulted from recent legislation pertaining to prices and price making. In order to simplify this a brief review of the most important legislation is given in the following paragraphs.

New Laws Affecting Trade.—Lack of understanding of how prices are made, the great growth and huge profits reported by some corporations, and much political agitation and active lobbying by trade associations have resulted in state and Federal enactments to govern price making and restrict some forms of competition. The first of the Federal laws, passed in 1890, is known as the Sherman Anti-Trust Act. The purpose of this legislation is roughly expressed by its popular name. It outlawed contracts, conspiracies, and combinations which acted in restraint of trade or the purpose or effect of which was to create a monopoly.

In 1914 two new Federal laws were added to the statute books: The Clayton Act and the Federal Trade Commission Act. The former was intended to extend and supplement the Sherman Act and the latter provided an agency for the enforcement of these laws. In a later paragraph this legislation will be given further consideration.

In 1918 the Webb-Pomerene Act became a law. Its purpose was to permit exporters to do cooperative marketing of products in foreign countries. This was not lawful under the restrictions of the Sherman and Clayton acts. These laws were liberalized only in foreign marketing.

The Robinson-Patman Act of 1936 was aimed primarily at unfair price discriminations, which it aims to correct. In many ways it is the most severe of the numerous enactments which regulate trade. It will be discussed at length below.

The Miller-Tydings Act of 1937 is an amendment to the Sherman Act, permitting residents of those states which have "fair-trade" laws for price fixing to extend the practice to interstate business. As an example, New York and New Jersey both have laws permitting resale-price fixing. The Miller-Tydings Act legalizes price-fixing contracts between firms of these two states. But a contract to fix resale price between a firm in New York and one in Vermont, which does not have a fair-trade law, is still unlawful.

The most recent of the trade regulation laws is the Lea-Wheeler Act, which became effective in 1938. It is an amendment to the Federal Trade Commission Act, very greatly extending the powers of that Commission. It also supplements and amends the Pure Food and Drugs Act, a discussion of which follows later.

The Clayton and Federal Trade Commission Acts.—It was the primary purpose of the Clayton Act to make unlawful any contracts, agreements, or acquisition of interest in competing businesses when the effect was "to substantially lessen competition or tend to create a monopoly." It prohibited (1) price discrimination between buyers in similar positions; (2) leasing or selling on condition that the buyer should not handle the products of a competitor; (3) acquiring stock in or creating interlocking directorates with competitors where the effect was to curtail competition.

The Federal Trade Commission Act provided for the appointment of five men, whose terms of service are 7 years, to act as a prosecuting agency for the enforcement of the Clayton Act and in general to police business to prevent unfair methods of competition. There was much that the FTC (Federal Trade Commission) could and did do to prohibit unfair business practices. Untruthful advertising, imitating labels and trade-marks, inducing the cancellation of contracts with competitors, commercial bribery and belittling, or misrepresenting competitors were all in the field of unfair competition, in addition to the procedures specifically mentioned in the statutes.

The FTC was required to make extensive trade investigations at the directions of the President or of either branch of the Congress. Much of the time and energy of the Commission have been taken up with this type of activity. The study of wages, margins, and prices of the chain grocery stores compared with the

independents was one of the most notable. Another was the investigation of conditions in the coal industry. But these investigations have been of small importance compared with the Commission's influence on buying and selling.

Particularly has advertising felt the effect of the FTC activities. The word "free" has been eliminated where the offering is not absolutely free. Misbranding, such as "near seal" for rabbit, has been forbidden. Such practices as saying offerings are for a limited time, when actually there is no limit; representing a fabric to be silk or wool unless it is 100 per cent pure; and representing the origin of merchandise to be other than it really is have all fallen under the ban.

Perhaps attention should be called to the fact that the FTC has no jurisdiction in business conducted wholly within a state. This is also true in general of the Federal acts relating to trade and commerce. Neither does the Commission have jurisdiction in matters of transportation, which belongs to the Interstate Commerce Commission. Banking also, by special limitation, is not under the FTC.

The Robinson-Patman Act.- In 1936 something of a sensation came with the revelation that large manufacturers who supplied chain stores had made them immense allowances, running into the millions, for no apparent purpose other than to secure the stores' "support" for their merchandise. As competing manufacturers each subsidized the same stores, it was apparent that the chains were wringing an unfair advantage from the manufacturers, which put them in an unequal position as compared with the independents. It was shown that the Great Atlantic and Pacific Tea Company had received some $8,000,000 in this manner. The amount collected as subsidies or bonuses was as great as or greater than the net profits of the business. This gave a great impetus to the associations of independent retailers, who found a champion in Representative Patman. Senators Borah and Robinson also had ideas on the subject and together with Patman threw some heterogeneous mandates together and secured their enactment into law.

The law prohibits unfair or inequitable discounts in the following language:

It shall be unlawful for any person engaged in commerce . . . either directly or indirectly, to discriminate in price between different pur-

chasers of commodities of like grade and quality . . . where the effect of such discrimination may be to substantially lessen competition or tend to create a monopoly in any line of commerce or to injure, destroy or prevent competition with any person who either grants or knowingly receives the benefit of such discrimination, or with customers of either of them: provided, that nothing herein contained shall prevent differentials which make only due allowance for differences in the cost of manufacture, sale or delivery resulting from the different methods or quantities in which such commodities are to such purchasers sold or delivered.

It is evident that this does not prevent quantity discounts but limits such discounts to the actual saving which large purchases make possible to the seller. It does not permit of making a series of discounts such as was charged against the Goodyear Tire & Rubber Co., Inc., in their contract to supply tires to Sears, Roebuck and Company on a cost plus contract. The FTC held that such a series of discounts put one customer in a class by himself and gave him preferential treatment. They said it involved a series of discounts running up to $50,000 or $100,000 worth of purchases, then jumped to a million with a much larger premium. That summarizes the charges of the FTC but by no means accurately represents the Goodyear Tire & Rubber Co., Inc., in their contract.

FTC May Fix Quantity Discounts.—The Robinson-Patman Act further provides: "The FTC may, after due investigation and hearing to all interested parties, fix and establish quantity limits, and revise same as it finds necessary." This clause added immensely to the authority of the FTC, for previously it had been necessary to show that the practice in question tended to limit competition. This clause relieved the Commission of the necessity of showing ill effects on competition. Anyone who feels himself aggrieved may now complain of discrimination, and limits to price differentials may be set without proof that competition is affected. But this one proviso did not give the FTC the authority to pass on unfair trade practices which it had long sought. This provided only for price fixing.

The act strikes directly at such arrangements as the A & P chain had with its suppliers. Where a complaint of discrimination has been made, "the burden of rebutting the prima-facie case thus made by showing justification shall be upon the person charged with a violation." Further, it is declared unlaw-

ful "to pay or grant, or to *receive* or *accept*, anything of value as a commission, brokerage or other compensation—except for services rendered in connection with the sale or purchase of goods."

This holds the buyer, or agent for a buyer, to be acting unlawfully in receiving any emolument for placing the order, unless some definite service is given, which must be of the value of the compensation. Furthermore, the same opportunity must be open to other buyers on the same terms. The A & P chain attempted to justify their receipts in the form of brokerage or commission by stating that they gave their suppliers a large amount of information concerning markets which was of great value. The FTC rejected this on the ground that such information was gathered for the benefit of the buyer, who did nothing in connection with the collection of data by which he did not profit.

Finally, in Section 3, the act provides:

> It shall be unlawful for any person engaged in commerce, in the course of such commerce, to be a party to, or assist in, any transaction of sale, or contract to sell, which discriminates to his knowledge against competitors of the purchaser, in that, any discount, rebate, allowance, or advertising service charge is granted to the purchaser over and above any discount, rebate, allowance, or advertising service charge available at the time of such transaction to said competitors in respect of the sale of goods of like grade, quality, and quantity; to sell, or contract to sell, goods in any part of the United States at prices lower than those exacted by said person elsewhere in the United States for the purpose of destroying competition, or eliminating a competitor in such part of the United States; or, to sell, or contract to sell, goods at unreasonably low prices for the purpose of destroying competition or eliminating a competitor.

For the violation of this section one may be fined up to $5,000, imprisoned for not more than a year, or both. As the "purpose" here must be proved, probably few convictions will follow, as it is proverbially difficult to show purpose or previous intent. But it does give the manufacturer an excellent reason for breaking a practice which costs much money and has shown only inadequate returns at best. However, there are still a considerable number of manufacturers who incur the risk of criminal prosecution for the privilege of playing Santa Claus to some of the large distributors.

The Lea-Wheeler Act.—The Lea-Wheeler Act is primarily a strengthening of the FTC Act. Perhaps its most important provision is to give the Commission authority to cite for hearing those believed to be guilty of "unfair methods of competition in commerce, *and unfair or deceptive acts or practices in commerce,*" both being declared unlawful. The first of these clauses was in the Clayton Act and, as pointed out above, required the Commission to show that the conduct charged constituted unfair competition. No matter how pernicious the practice complained of might be, if it did not constitute unfair competition, the Commission was powerless to act. The standard of fairness in competition was the effect upon the ultimate consumer. If he was injured, then the competition was unfair; but however ruthless, however injurious to competitors, if consumers were not made to suffer, then unfair competition could not be established. With the new clause added, it is no longer necessary to show that injury will result to consumers or that competition will be affected. It is enough to establish that an act is "unfair or deceptive." The latter is concrete and definite. It should not be difficult to recognize and point out deception. The act also gives a new definition. "A false advertisement is one which is misleading in a material respect." To establish criteria of fairness, or unfairness, is going to require a lot of litigation. It will finally be left to the courts to decide. In the meantime the Commission can "cite to show cause," if in its opinion a practice is unfair to anyone concerned.

Another provision of the act puts the general supervision of the sale and distribution of "foods, drugs, devices (for treatment of bodily ailments) and cosmetics" under the FTC. Previously this part of business was under the jurisdiction of the Department of Agriculture under what was known as the Pure Food and Drugs Act.

Still another section of the act makes the cease-and-desist orders of the Commission more effective and secures more prompt compliance.

State Laws of Trade.—Each of the different states has legislation pertaining to weights and measures, to sanitation, and to the organization of cooperatives and other enactments which in a general way influence marketing within their borders. The authors will not attempt to review these. They are too numerous

and of insufficient importance to this subject matter. There are, however, a considerable number of "uniform" laws regulating trade, that is, practically identical laws enacted in so many states that they have national significance. Among these are the Uniform Warehouse Act, the Uniform Sales Act, and the *Printers' Ink* Model Statute. More important to manufacturers having wide distribution are the so-called "fair-trade practices acts."

The purpose of the Uniform Warehouse Act is to provide a definite standard for warehouse receipts so that there will be no question of their validity even in distant places. Further, identical restraints are placed upon their issue so that a bank may accept them without question, wherever issued.

Another act of similar tenure in a large number of states is the Bulk Sales Law, which provides: "The purchaser must notify the creditors of the seller five or more days before the transfer takes place. Failure to do this makes the buyer responsible for the debts. He does not get a clear title to the goods, as the creditors can still levy on them, if they are not paid for."[1]

The Uniform Sales Act of New York makes the guaranty much more stringent and binding than it is under common law. "Positive statements of fact as to quality are regarded as affirmations of fact and therefore warranties." It must appear that the buyer relies and has the right to rely upon the skill or judgment of the seller. This is held to be the case where the seller is the manufacturer of the goods and therefore in a position to know all about them. Formerly, obvious defects have been held not to be covered by a warranty. The idea was that the buyer should see the obvious defects. Dean Sommer, of New York University Law School, says in regard to this, "Where the defect is not obvious but would be discovered if a careful examination were made, and the buyer had the right to make this examination but failed to make this examination, he is nevertheless protected by the warranty whatever form it takes." The manufacturer is not released from a verbal guaranty by a written one; that is, if the seller represents an article to be, say, fast color, and with it is a printed statement covering the guaranty in which many exceptions are made, the word of the salesman holds, regardless of the written guaranty.

[1] A. F. Chapin, "Credit and Collections, Principles and Practice," McGraw-Hill Book Company, Inc.

The *Printers' Ink* Model Statute relates wholly to advertising. It makes it a misdemeanor to publish an advertisement that is "false, deceptive or misleading." In 32 states the law has been passed in identical form. In most of the other 16 it has been copied in a general way, but the word "knowingly" has usually been inserted, so that it reads "a person knowingly publishing an advertisement that is false, deceptive or misleading shall be guilty of a misdemeanor." In that form it is much less effective, for in prosecution it is extremely difficult to establish what was in a person's mind. In the original form it required the advertiser at his peril to see that his published notices should not be false, deceptive, or misleading.

Price-fixing Laws.—For nearly a quarter of a century a bill was presented at every session of Congress, the purpose of which was to make legally possible a contract between manufacturer and wholesaler and between either of these and retailers to fix resale prices. The courts had ruled that such contracts were in violation of the Sherman and Clayton acts. It was a manufacturer's right to refuse to sell to price cutters or to refuse to sell to those who sold to price cutters. He could also advertise that he maintained price and sold only to those who cooperated with him. But he could not keep a "black list" of price cutters, nor permit his salesmen to make reports on price cutters, nor could some of his customers legally report their competitors who cut prices. Under such regulations price maintenance was extremely difficult of enforcement.

The above were established largely through the Colgate case, where the court said in part:

> The retailer, after buying, could, if he chose, give away his purchase, or sell it at any price he saw fit, or not sell it at all; his course in these respects being affected only by the fact that he might by his action incur the displeasure of the manufacturer, who could refuse to make further sales to him, as he had the undoubted right to do.[1]

Most of the regulations pertaining to price maintenance have come out of court decisions. One of the early cases was that of the "mimeograph," in which the manufacturer, because he held a patent, attempted to dictate what supplies might be used with

[1] 250 U. S. 300, 39 Sup. C. 257.

it. This was held to be an illegal contract. After the passage of the Clayton Act, a case came up involving the control of resale prices of patented articles. This overruled the former Dick Mimeograph case, which has been often quoted. The Motion Picture Patent case boils down to this: Once a picture has been sold, the patentee rights cease.[1] It is assumed that he has collected his royalty, and he is no longer entitled to control the selling price. Subsequent cases have denied the patentee any rights over the resale of patented articles.

Attempting to treat retailers as agents when they buy and pay for the goods for which they are supposed to be agents has been frowned upon by the courts. Dr. Miles Medical Company set up a very ingenious system to control price by this device, but it was declared illegal.[2]

Giving a premium as a reward for maintaining price which was tried out by a cosmetic house failed as a device for avoiding the charge of conspiracy. The Beech-Nut policy of using key numbers on packages so that their origin could be traced was also frowned upon by the courts as being part of a conspiracy.[3]

As mentioned above, reinstating a dealer after he had been cut off for price cutting came up in the Beech-Nut case and was criticized by the court. This difficulty was sometimes avoided by refusing to sell but not giving the reason for the refusal.

Actual Steps in Making Prices.—In the case of a new company or a new product there is of necessity much of trial and error in fixing a price that will produce a profit. The widely told story of how Henry and Edsel Ford sat down together and in a few minutes' calculation decided on a price for the new Model A is a legend of commerce. That price, in the long run, proved "about right," although for a period of time the Ford Motor Company lost a million dollars a day while developing the necessary quantity output, if a statement of one of their buyers is to be believed. The explanation usually given is that they decided that such an automobile as they had designed could be sold at a profit at a retail price around $570, if enough of them could be

[1] *Motion Picture Patents Company* v. *Universal Film Manufacturing Co. et al.*, 243 U. S. 502.

[2] *Dr. Miles Medical Company* v. *John D. Park & Sons*, 220 U. S. 373.

[3] 257 U. S. 441, 42 Sup. Ct. 150.

made. Furthermore, to sell the required number to permit a satisfactory profit, the retail price must be under $600.

If the Fords, or either of them, were asked how they knew that $600 was the maximum price possible to sell them by the million or how they were able to estimate the exact number it would be necessary to sell in order to make a profit, the answer would probably be "by experience." Of just what, it may be queried, does experience consist, that will permit two men to make a decision involving millions of dollars after a brief, offhand calculation? There are no specifications available. But it may be said that the experience of the Fords was without parallel. It consisted of making and selling 16 million Model T's. That had given them an insight into the automobile market and a knowledge of manufacturing costs which was probably as accurate as any cost figures available at that time. With such an experience as a basis for estimating, few serious errors should be made.

Contrast this experience with that of the food manufacturer who had sales running into millions of dollars yet who saw his volume and deficit increase year by year. It is true that this manufacturer also had had experience, but, instead of having accurate information, at no time did he have dependable data concerning the costs of any item among his products. At best he had only a vague idea that his costs were so much a pound. He never actually knew. Finally a new manager required the accounting department, against its protests, to supply figures for each item, showing the cost to make and package each. Then an entirely new thing was done. Sales of each unit for each trading area were compiled, and the costs of selling each package was calculated to a fraction of a cent. Costs that could not be accurately measured, such as incommensurable risks, were estimated from such records as were available. When the actual cost of producing and selling were established, a sufficient amount was added to assure a profit for the sale of every item.

A Problem in Dividends.—Perhaps the most difficult part of this calculation was to arrive at an equitable—and possible—amount to give stockholders for dividends. Some had paid as much as $90 a share for stock during the flush times of 1928–1929. In the lean years that followed, the price dropped to about one-seventh of that amount and it was around $18 when the new management came in. After much careful consideration and

close watching of results following the adoption of the new prices and new methods, it was decided that a rate of dividend could be maintained which would provide a very liberal return for those who had been fortunate enough to invest in the firm's shares at the prevailing prices. This was at a time when only a small minority of the businesses of the country were making money—early in 1938. While the established dividend was liberal for the prevailing price of its stock, it was only about the United States bond rate for those who had bought their stock at the top of prosperity.

Trying to fix a dividend rate is still a matter of speculation for new firms. With many corporations, common stock was the reward for taking a speculative chance. Bonds and preferred stocks, both of which rewarded owners with a fixed income comparable to going rates of interest, produced the necessary capital. It was the common stock which provided a reward for helping to finance the enterprise. It was the bonus offered for taking a gamble rather than being satisfied with "legal" interest rates. The vast majority have provided little or no profit and still provide a meager return in the way of investment. On Feb. 6, 1939, the *New York Times* listed 1,050 stocks, common and preferred. Of these, 591 were paying owners less than 3 per cent per annum on the price at which they were selling.

As a matter of fact, a few common stocks are now offered gratis to buyers of senior obligations of the issuer. Even before they have demonstrated their ability to earn any returns for buyers—that is, to those who help finance industry—they are exchanged for cash or other valuables.

In the actual fixing of price, however, little consideration can be given to compensating those who have incurred financial risks of the business. If the price is such that it will reward all investors for the use of their money, say, at a rate comparable to what they would have to pay as interest on any amounts they borrow, most stockholders will be contented. They will accept the added stability which the regular payment of dividends gives to a stock as their reward for assuming the hazards of the business. If good management increases profits to the point where the stock is salable at a higher price than the shareholder paid, the gain will be his reward or bonus. Investors have generally come to realize that this is a sounder form of organization than

free shares as an investment premium. If the business prospers, share values will increase. It is as true of shares that have been bought as of those that have been donated. Besides, actually buying stock and taking the profit it brings is subject to far less public criticism than realizing the same profit on stock given as a bonus for the investment of cash. in the bonds or preferred stock of the concern.

Price Maintenance.—Since the enactment of the so-called "fair-trade laws" by nearly all the states, the problem of price maintenance has become of decidedly secondary importance as contrasted with the interest shown in it before those enactments were placed on so many statute books. However, the difficulty of maintaining price seems to rest, with all its onus, on the shoulders of the manufacturers. To shift this burden to the dealers was the inducement which won over national advertisers to the support of the fair-trade laws.

Inasmuch as the problem of price maintenance still persists, a brief discussion may be advantageous. First, a clear picture of just what is involved in price maintenance should be presented. As the authors see it, price maintenance is an agreement between the seller and buyer fixing resale prices for branded merchandise. The arguments in favor of this form of contract are

1. The dealers are all put on the same base.
2. It helps dealers to hold trade at home.
3. It fosters pleasant relations with dealers, assuring them a profit.
4. It tends to curtail substitutions.
5. It eliminates the annoyance of "loss leaders."

These points are by no means conceded by the opponents of price maintenance, who present the following arguments:

1. It tends to kill the initiative of dealers.
2. Dealers should be differently compensated for different services. Not all sell on the same base, and fixing a resale price largely ignores the service performed by the retailers.
3. It makes manufacturers a world of trouble to enforce.
4. It robs the highly efficient dealer of the advantages which good management might bring him.

Already, in discussing the state enactments, generally called fair-trade laws, the effects of price maintenance have been discussed. Perhaps the strongest argument in favor of it is the one that has been prepared by William H. Ingersoll, who maintains

that the good will and good name of the manufacturer is a source of profit to the dealer; that is, because of these, many goods are sold with less effort and provide a good profit for the retailer. At the same time, the dealer does not buy these or any part in them when he buys trade-marked goods. Consequently, he has no right to advertise, sell, or offer for sale branded merchandise in such a way as to injure the good will of the one who owns the brand or adversely to affect his sales. If a grocer wants to sell Ivory soap below cost, it is his privilege to do so, provided that he remove the identification marks. Then his price cutting will not injure the sale of Ivory soap in other stores.

The authors concede that, if a system of prices could be arranged and maintained, which would vary according to the services offered by each store, price maintenance might be generally accepted and approved. But as no one has yet worked out such a system of prices, the present idea of price maintenance is far from being fair to all dealers. It is our belief that the present practice under the fair-trade laws penalizes the most able merchants.

Legal Aspects of Price Maintenance.—The legal obstacles to maintaining price were largely removed when the Supreme Court, in May, 1937, approved the fair-trade laws of California and Illinois. These not only permitted contract for resale price between buyer and seller, but provided that upon receiving notice all dealers were covered by the contract, whether they had specifically signed or not. Where these laws are not in effect, the multitudinous court rulings pertaining to price maintenance still make up the legal restrictions and provisions to which buyers and sellers are restricted. In general, it is lawful

1. To sell or refuse to sell as one sees fit.
2. To choose one's customers and classify those customers according to any method that is thought desirable, such as wholesalers, retailers, and brokers.
3. To refuse to sell to price cutters.
4. To notify customers and prospective customers that one did not sell to price cutters or to those who sold to price cutters.
5. Otherwise to advertise that one does not sell to price cutters or to those who did sell to price cutters.
6. To argue for and by persuasion promote price maintenance.

However, it is unlawful for a seller to make any agreement with his buyers as to prices which are to be charged at resale. This

was held to be covered by the Sherman Anti-Trust Law, passed in 1890, and court decisions have been uniform in holding that the contract for resale price is a conspiracy in restraint of trade.

One may not make a black list of price cutters nor may one cooperate with regular dealers who report those who cut prices. One may not offer financial rewards for maintaining price and may not make with those to whom he sells implied contracts to maintain price.

Patented articles carry no privileges in regard to making contracts for resale price that unpatented articles do not have, the Supreme Court having held that when an article is sold and paid for, the one owning the patent has no further rights.

These restrictions are formidable. They practically prohibit a customer who has once been dropped for price cutting to be reinstated, because the very act of reinstatement is looked upon as an agreement which implies that in future prices will be maintained. Even the right to designate what material may be used with the patented article has been brought under question. In the Dick Mimeograph case, the original contracts provided that the rotary mimeograph could be used only with prescribed materials and that contract was upheld, but in a more recent decision the Motion Picture Patents Company was denied the right to enforce a contract which specified the conditions under which it could be used. In this connection the court ruled:

> A restriction to prohibit the use of a patented article except with accessory articles, designated by the patentee, would, if upheld by the courts, give patentees the potential power to control entire industries. This is against public interest and policy and exceeds the intent of the patent laws.[1]

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CHAPTER XV

Premiums and Contests—Parts of Merchandising

Premiums Started with Soap.—While it is always difficult to determine the exact origin of any practice or to name the first to do this or that, the discovery of the time when some plan became so general that it was continued is less difficult but more important. Retailers long ago used premiums as inducements for customers to buy in larger quantities, to give one store a larger part of their patronage, and to make purchases sooner than they might otherwise. B. T. Babbitt, the first man continuously to wrap his soap in paper with printed labels, was also the first manufacturer to offer premiums with his product. He started the latter about 1875 and continued for many years and so is regarded as the originator.

The early magazines, particularly *The Youth's Companion*, gave attractive items of merchandise for those who solicited subscriptions. This perfectly legitimate and highly successful plan was adopted by other publishers. An unfortunate variation also became popular. Instead of giving a present to the one who secured subscriptions, a premium was given to the subscriber, so that he bought the publication and the item of merchandise that went with it. This has continued to a great extent, but readers who are "bribed by a present" have never brought much prestige to the publisher. Perhaps this is the least successful use of premiums. The use of green trading stamps by retailers came to be overdone and to be too great a tax on the store's profits, so that the stamps fell off in use during the World War and were never reinstated on a large scale.

When the retail trade reduced the number of premiums, more manufacturers took them up. The Larkin Soap Company, following Babbitt, has surpassed him in the success and extent of premiums. Stimulated by this demonstration of what might be accomplished by that system of merchandising and, further, by the great growth in radio advertising, the use of premiums is greater now than at any time in the past.

Printers' Ink[1] published the following figures for the various advertising media for 1939:

Newspapers	$525,000,000
Direct mail	300,000,000
Magazines	150,000,000
Radio	170,000,000
Outdoor	50,000,000
Business papers	50,000,000
Farm papers	17,000,000

Compared with these the amount invested in premiums was estimated at from $350,000,000 to $400,000,000. Only newspapers and direct mail have comparable volumes.

The following claims are made for premium advertising:

1. That it is an alternative to an equal or greater expenditure upon some other form of advertising.
2. That it does not increase the retail price because of its use over that of any other form of advertising nor depreciate the quality of the product with which the premiums are given.
3. That it confers benefits on the public which are outside the scope of other advertising methods.
4. That it confers proven benefits to retailers by creating demands for retailers' stocked merchandise.
5. That it keeps factories in production and thousands of men and women in employment.

Premiums a Form of Advertising.—Since premiums are used to make an offer more attractive and are in realty a consideration in the sale, the question may arise as to whether it is correct to refer to premiums as an advertising medium. In the strictest sense, a premium may not live up to the definition of an advertising medium, but the fact remains that it is a form of inducement. The use of premiums does frequently promote sales, and, after an exhaustive hearing, the Advertising Federation of America, in

[1] Mar. 2, 1940.

1928, unanimously recognized and declared premium use a form of advertising.

A premium may be defined as an immediate or ultimate plus, usually in the form of merchandise, offered in addition to or in combination with a manufacturer's product for the purpose of attracting users who would not normally buy the product or who would buy it less frequently without the added inducement. Premiums fall into two classes, those given free and those offered for a slight extra charge at the time of purchase of the product. An example of the first would be Kraft cheese packaged in fruit-juice or "sour" glasses, or a pair of house gloves with a can of DeVoe paint. In the second, an ultimate plus is usually found in the more expensive form of premiums, for instance, a pair of silk stockings for 10 Silver Dust box tops and 10 cents or a chromium bread-and-butter plate for 10 cents and a label from a package of Land O'Lakes butter.

In either case the one who redeems the coupons and secures the premium is given a reward for extra purchases, either for buying a product when some other might be taken, as with the DeVoe paint, or for being a quantity buyer, as with the Silver Dust box tops. There is a distinct resemblance to the cumulative quantity discount in this award of premiums. Generally speaking, there is little premium advertising for promoting the sale of goods that have a slow turnover and high unit cost, although there may be exceptions. The fact that there are relatively few premium offers in the field of highly priced products may, in the last analysis, be explained by the fact that the investment is too substantial for a small premium. If the premium were to be increased in value, it might be less acceptable than a price reduction. However, in the earlier days of automobiles an extra tire was offered as an inducement, or premium. Indeed, on the very early cars, the windshield and the horn were extras, later offered as premiums and finally as standard equipment. These were related items, often thought to be more appropriate than those wholly unrelated. The latter are much more prevalent with popular-priced merchandise.

Most consumer premiums are in the field of convenience goods, where turnover is rapid, unit cost low, and competition keen. A careful study of premium offers in the consumer field will show that it is difficult to write distinctive conviction copy about the

products themselves because of the similarity between competing brands. In such cases, a premium offer is a refreshing change in campaign technique and is welcomed all along the line, by distributors and consumers alike, if the campaign is properly planned and executed.

This does not mean that all premium campaigns offer inducements both to distributors (jobbers' salesmen, dealers, and clerks) and to consumers as well. Some premium campaigns do, whereas others are directed solely to the consumer and still others to those whose efforts can facilitate the flow of goods from point of production to the point of sale. It will probably be a surprise to most readers to know that from 20 to 25 per cent of the premiums used are for the purpose of facilitating the distribution of goods rather than of influencing consumers. If a manufacturer is considering the use of premiums, he should look first at his merchandising problem on one side of the counter, and then on the other, and make the basic decision as to whether the premium inducement should be applied to consumers, to those responsible for distribution, or to both.

Premiums for Dealers and Clerks.—In any well-planned campaign, a certain percentage of the appropriation is spent for advertising and sales-promotion efforts among dealers and clerks. In many cases the success or failure of a campaign may be due to what is commonly called "dealer cooperation." Advocates of premiums contend that frequently a part of the dealer appropriation can be profitably spent for premiums to be offered to dealers in proportion to the extent that they stock the product and to clerks in proportion to the extent that they push the product.

One of the effective and mutually advantageous uses of dealer premiums is in connection with taking either a larger order or an assortment large enough to constitute a complete stock, which may deserve a premium. Or with the sole object of inducing the dealer to concentrate his sales efforts to one line, such an inducement may be effective. The dealer premium is in no sense a price reduction but is a way of inducing the dealer, because of a selfish interest, to undertake the extra selling effort involved. The cost of the premium comes out of the advertising and sales-promotional appropriation and is never worth more than the added volume to the manufacturer. The premium offer may be extended progressively over extending territories, thus creating a substantial increase in volume for the manufacturer. As a general rule,

the dealer and clerk premium plans are allied. Coupons or premiums to the clerk are not offered to influence purchases by the retailer, but to spur the clerk to a stronger sales effort on the product in question. Clerk premiums or coupons are given in ratio to the number of sales made and always with the knowledge and approval of the proprietor.[1]

If premiums are to be given clerks, they should be considered from all vulnerable points—athletic goods, luggage, musical instruments, sports clothes, and everything that might appeal to convenience, savings, and pastimes. It should also be remembered that many of the salesmen are family men and that articles for the home may be equally welcomed. According to Frank H. Waggoner, editor of *Premium Practice*, an analysis of a large number of such offers shows that approximately 60 per cent of the premiums are for the home; 10 per cent for women; 8 per cent for children; 12 per cent for salesmen's personal use; and 10 per cent for sports. The usual means of presenting the premium offer to salesmen is through the medium of a specially prepared premium catalogue (or mailing piece). Most successful offers of limited duration are dramatized, and showmanship enters largely into the picture. Members of the families of the salesmen are sent copies of the premium announcements and told to select the things they would like. The result is that the salesman is encouraged to make the necessary extra effort to secure them.

It is comparatively easy to get a product onto the retailer's shelf—it is a much more difficult operation to get it off. In large businesses, backed by liberal advertising, the consumer is properly considered the primary market. If the advertising sends customers into the store asking for the product by name, the dealer must stock it and the jobber must supply him. But if the customer is not insistent or does not express a preference, the dealer or clerk is in a position to influence the sale by a word of recommendation for a brand which he favors.

Premiums for Jobbers' Salesmen.—A frequently heard criticism of jobbers' salesmen is that they do not push the manufacturer's product. The answer, of course, is that a jobber's salesman has so many items in his catalogue that it is impossible for him to give adequate attention to all. Jobbers' salesmen are human, however, and in many instances an extra incentive will result in increased attention to the product, or line, of the one

[1] Statement of Frank H. Waggoner, editor of *Premium Practice.*

thoughtful enough to show his appreciation in a substantial way. Premiums can be used as an effective means of expressing one's appreciation. It goes without saying that no offer of any kind should be made to another firm's salesmen without the consent and cooperation of the responsible official in charge of the salesforce. Some jobbers will give the manufacturer the names and home addresses of their salesforce, and some will not. In one important field of wholesale distribution the authors found that home mailing lists could be obtained from approximately one-half of the jobbers. The others were willing to give the number of salesmen in their respective organizations and requested that all promotional material be sent in bulk for distribution to the salesforce by the sales manager. A premium plan for jobbers' salesmen is quite similar to a premium plan for a salesforce operating under the direction of the sales manager of a manufacturing establishment. The situations which call for the required plus effort are much the same.

According to Howard W. Dunk, premium counselor, back of the jobbers' salesmen's premium plan is a factor of greatest importance to the manufacturer. When merchandise is sold through the jobber, the manufacturer is too often ignorant of the location of ultimate retail outlets or of the volume they handle. By this premium plan, the redemption records may disclose the names, addresses, dates, and quantities of merchandise sold by the salesmen, and, from subsequent redemption records from the men, an accurate check can be kept as to how the goods are moving in various sections of the jobbers' territories. In many cases this information is worth all the premium cost. However, the plan should not be used surreptitiously to get information the jobber regards as more or less confidential.

Premiums for Consumers.—There are about as many different kinds of consumer premium offers as there are varieties of goods in a general store. There can obviously be no hard and fast rules which one can follow and be sure of success. The use of premiums calls for specialized skill just as does the use of any other form of sales promotion. If premiums are being considered, it is certainly sound advice to suggest that the manufacturer seek the counsel of someone who has had practical experience with a variety of premium plans. This point can be illustrated by citing the case of the canner of tomatoes who decided to print a

coupon form as part of his label. He made this decision because he had been noting for years that his wife purchased a certain brand of canned milk because the labels could be redeemed for premiums which she wanted. The tomato canner announced his plan and received many requests for premium catalogues, but no labels were ever sent in for redemption. He then consulted a premium expert, who noted that the premium offer provided that 200 coupons were necessary for the consumer to receive six silver-plated spoons. Upon considering the buying habits of the average customer, it was revealed that it would be necessary for the purchaser to wait about 2 years before a sufficient number of coupons could be accumulated to be exchangeable for a worth-while gift. Present premium practice indicates that the consumer should be able to save sufficient coupons for a worth-while premium in from 4 to 6 months.

Some of the more common merchandising situations which have prompted manufacturers to use consumer premiums are considered below, but no specific items are given, as lists of premiums will be offered in most of the literature dealing with this subject. If there is a demonstrable difference of quality over competing goods, then there is no reason to offer a premium. Even if the price is higher, the extra quality is a premium. If the buyer is unwilling to pay the higher price, probably a premium would not be effective; that is, if the consumer will not pay a premium price for premium quality, it is extremely doubtful if an extra item of merchandise will prove convincing.

Where there is so little difference in quality that it is difficult to discover, and where there are no particular sales advantages, then the premium can be used effectively. In the case of similar products, which offer no advertising or distributive advantages and for which the prices are the same, the premium offers the convincing plus. If it can be supplied at a cost that is not too great, it may provide a means of outdistancing competition. This, it will be understood, applies to consumer premiums only

Advantages and Extent of Consumer Premiums. Perhaps the most exhaustive list of purposes for which premiums may be profitably used appeared in a *Printers' Ink Monthly* special study which appeared in the issue of May, 1939. Premiums there were recommended to

Introduce new products.
Introduce products in new territories.
Increase the unit of sale.
Minimize substitution.
Induce consumers to continue buying a product.
Get the interest of children.
Encourage consumers to buy a family of products.
Induce people to try the product.
Promote a special offer on anniversary sales.
Promote a special Christmas offer
Speed the sales of slow sellers
Check radio programs.
To meet or offset price competition
Increase off-season sales
Give the advertising a new appeal
Get the names of prospective customers
Dispose of an old package to prepare the way for a new one
Secure better display at point of sale

After the specific purpose of premium promotion has been decided upon, the next problem is to decide upon the premium or premiums that are to be offered, and the method of distribution or redemption. Here again we find seemingly no limit to the number of plans, but they can be divided into two broad classifications. The first, and formerly the most popular plan, provides for the use of coupons, either inserted separately in the package or made a part of the package The second broad classification includes what are known as "direct" premiums; that is, the premium is delivered at the time of purchase or is later delivered by mail. There are many variations of the direct-premium method, which will be discussed later. One point that should be made here, however, is that direct-premium plans are by far the most popular today. It has been estimated that coupon plans now constitute but 15 per cent of the total

A study of the prevalence of the use of premiums and their reception by consumers was published in *Sales Management*.[1] The article in question reports the results of a survey conducted for *Sales Management* by the Ross-Federal Research organization in Cleveland and Atlanta during November, 1939. The survey shows that 28.6 per cent of the housewives interviewed took advantage of one or more premium offers during the year. The

[1] Dec. 1, 1939.

percentage for Atlanta was 25 per cent and for Cleveland 32.2 per cent. Following are the answers to some of the other questions asked by the investigators:

How many such offers do you remember accepting during the past twelve months?

	Atlanta	Cleveland	Total
1 offer	32 8%	72 1%	54 9%
2 offers	26 4	19 9	22 7
3 offers	19 2	6 2	11 9
4 offers	8 0	1 2	4 2
5 offers	4 8		2 1
6 offers	3 2		1 4
Over 6	5 6		2 8

Note. 100% is the number who took advantage of premium offers

Have premium offers influenced you to purchase products you have not used before?

	Atlanta	Cleveland	Total
Yes	25 6%	29 2%	27 6%
No	74 4	70 8	72 4

As compared with merchandise of the same quality, do you think that goods offering premium inducements cost more, about the same, or cost less?

	Total
Cost more	6 6%
Cost about the same	90 6
Cost less	2 8

What types of premiums interest you most?

	Total
For kitchen use	48 3%
For other home use	49 7
For children	7 3
For personal use	4 2

Note: 100% is the number of people. Some of them mentioned more than one type of premium

This survey also brought out the interesting fact that 95.5% of the housewives interviewed found their premiums satisfactory.

Coupon Plans.—The basic reason for coupon premium plans is to encourage continued patronage. Advocates of this plan contend that a consistent purchaser of a product, or a line of products, is really a quantity purchaser and is entitled to a quantity discount. This consideration, it is contended, can be most conveniently and satisfactorily handled by offering attractive premiums in exchange for a stated number of coupons.

The number of coupons redeemed compared to those issued varies according to the nature of the product, the liberality of the allowance and the class to whom the premiums are given. Premium coupons should be given to consumers only with lines where repeat sales are reasonably frequent. When a single family may purchase a fair volume of the product within a reasonable time, premium advertising is particularly effective. Articles like coffee, cereals, bread, canned goods, soap, tea, and the like respond vigorously to the premium inducement when the consumer gets the coupon.[1]

The following is considered a fair estimate of the percentages of redemption in connection with coupon premium plans operated to promote the sale of merchandise in the classes mentioned above:

1st year	from 10 to 15% of the issue
2d year	from 20 to 25% of the issue
3d year	from 30 to 40% of the issue
4th year	from 40 to 50% of the issue
5th and after	from 55 to 60% of the issue

If the distributor has a number of different items under the brand, with which the same coupon is issued, the percentages of redemption would be somewhat higher yearly and finally reach 75 or 80 per cent.

For coupons given to dealers and clerks, in connection with the same classes of merchandise, the percentage of redemption to the total issue will be about as follows:

1st year	from 15 to 25%
2d year	from 30 to 40%
3d year	from 50 to 60%
4th year	from 65 to 70%
5th and after	from 75 to 80 or 85%

[1] E. W. Porter, "Power of Premiums as a Sales-producing Force" (pamphlet, privately published).

Coupon redemptions in foreign countries come close to 100 per cent. By knowing the approximate percentage of redemptions each year, it is a simple matter to estimate the yearly premium appropriation. If arrangements are made with a premium-service company to function as the premium department of the advertiser, then no investment in premiums is necessary. No expenditures for premiums are called for until after the advertised merchandise has been sold, the coupons presented for redemption, and the premiums delivered to the consumer. However, most of the large companies operating coupon premium plans maintain their own premium departments. One such plan which is attracting wide attention, especially on account of the quality of its premiums, is that of the Brown & Williamson Tobacco Corporation, manufacturers of Kool, Raleigh, and Viceroy cigarettes and Big Ben smoking tobacco. Premium stores are located in Chicago, Los Angeles, Louisville, New York, and San Francisco, where redemptions can be made in person or by mail. To encourage carton buying, four extra coupons are packed in each carton of Kools and plain Raleighs, and two extra coupons in cork-tipped Raleighs and Viceroys. The dealer is rewarded with these extra coupons when cartons are broken in stores for single package sales. Brown & Williamson thus operates a combination consumer and dealer coupon plan. The coupons can be redeemed at $\frac{3}{4}$ of a cent each, as explained on the back of the coupon, if the holder desires, but most redemptions are for premiums. The merchandise offered could not be purchased at retail for the amount secured by converting the coupons into cash. One of the most popular premiums at this time is a modern bridge table with automatic steel leg locks, which can be secured for 750 coupons. This table was especially designed for Brown & Williamson. The philosophy back of the premium plan as operated by this company is to reward loyal users of their products with *quality* merchandise. There was a definite desire to lift premiums out of the "tin-spoon" class.

Another well-known user of premiums is the Larkin Company, Incorporated. Almost everyone has heard of the "Larkin Soap Clubs," which have operated for years. Larkin's latest plan is called the new "Cozy Home Club," which is in a sense a premium club in that the purchaser is given gifts with her purchase. A Cozy Home Club consists of ten members. Each

agrees to pay $5 into the club, at the rate of 50 cents a week for 10 weeks. Each week the secretary of the club collects 50 cents from each member. She remits the $5 so collected to Larkin Company. Along with it she sends an order for Larkin merchandise, selected by the member whose turn it is to choose. By the time the tenth order of the club is reached, each member will have had her individual turn. Besides the goods purchased, the one whose turn it is to have the premium is also entitled to the Cozy Home gift which the Larkin Company gives with each $5 share. These gifts include such items as Turkish towels, stainless-steel kitchen utensils, etc. The secretary of each Larkin Cozy Home Club is rewarded with $8.75 in certificates exchangeable at their face value for any goods in the Larkin catalogue.

One important thing to consider in connection with the coupon plan is that its results are of more far-reaching effect than the single-premium offer and that its full effect will not be reached under 3 years, so that no advertiser should use the coupon form of premium advertising unless he is prepared to continue over a long period. Experience indicates that the premiums themselves should be of a wide variety of *quality* merchandise. If a consumer is loyal to a particular brand for sufficient time to accumulate the required number of coupons, he feels justly entitled to a premium of real value. If the consumer is dissatisfied with the premium, a customer is lost and the plan has defeated itself. The recipient will be even more critical of his prize than of the goods bought regularly.

Methods of Handling Premiums.—As previously stated, the most popular form of premium offer at this writing falls in the general classification of a "direct premium" which is given with a specified quantity. However, within this broad classification there are many variations. Premium offers are about as varied as advertising appeals. Here is certainly ample opportunity for the creative imagination of the advertising and merchandising man. Perhaps the best way to suggest the range of direct-premium offers is to repeat Frank H. Waggoner's definitions of some of the more popular kinds:

Direct Premium.—One that is given outright with a specified purchase made at no advance beyond the regular price.

Combination Sale.—Where some other article is sold in combination with one's own product, at a unit price for both, and in excess of that usually charged for the product itself.

Purchase Privilege Offer.—Where the purchaser of one's own product is given the privilege of buying some other article at the same time at a greatly reduced price. It is in effect an optional combination sale.

Over-the-counter Premium.—One that is delivered by the dealer to the customer, usually at the time of the purchase of the product with which it is offered.

Container Premium.—A container in which the product is packed which is usable after the contents have been removed. (A container with an afteruse.)

Enclosure Premium.—One that is enclosed in the carton or container with the product.

Self-liquidating Plan.- Where the cost of the premium is paid by the customer. Combination sales, purchase privilege and part cash plans are examples.

Part-cash Premium Offer.—One where the customer is required to send a sum in cash in addition to the premium tokens.

Advance Premium.—One delivered with an initial purchase, the customer agreeing to continue buying until the premium credits liquidate a fixed sum.

Some years ago the Arbuckle Coffee Company tried out a premium plan which is a fair example of how a part-cash payment can be operated. Percolators were chosen as the special inducement. Several carloads were bought at a price far below what retailers paid for similar models. A percolator was offered with 2 pounds of fresh Arbuckle coffee for a price of slightly more than half what similar percolators were selling for in retail stores. Even though the customer invested the price of several pounds of coffee, he was still ahead on the transaction for he was buying a useful article at much less than he could otherwise get it. Arbuckles increased the sale of coffee and also provided a way to have their coffee sampled under the most favorable circumstances. Two pounds was a large enough sample so that the family of the buyer could become thoroughly familiar with it before the supply was exhausted. The consumer paid enough to reimburse the manufacturer for the premium but was conscious that he had received a great favor in the reduced price. This is something that should be apparent in every premium deal when the plan is self-liquidating.

Choosing the Premium.—Not much progress can be made in developing a premium plan until the premium itself has been decided upon, and the selection is so important that the whole campaign revolves about it. If the premium is right, success is all but assured; if wrong, failure can hardly be avoided. There are no specific rules for the selection of premiums but it is safe to say that the best premium is the one that is *wanted* by the largest percentage of the manufacturer's potential customers. One frequently hears expressed the theory that a premium should be related to or should be used in connection with the product. Although there have been many successful premiums that fall in this classification, there have likewise been many successes where the premium was not related to the product. The main thing a premium should do is *satisfy* the customer and in this way build up a favorable attitude toward the product and its manufacturer.

Manufacturers of premium merchandise are ready and willing to make premium suggestions. Unfortunately, they are seldom unprejudiced. When seeking suggestions from others, it is important to explain the specific merchandising job that the premium will be expected to do. More and more premium users are finding it useful to attend the National Premium Exposition, which has been held annually for the past 10 years. This is an opportunity for the exhibiting manufacturers and premium buyers to accomplish in a few days what would otherwise require months of delay, volumes of correspondence, and perhaps extensive travel. All available display space was sold for the current year's exposition several months in advance. The convention and round-table conference of the Premium Advertising Association held concurrently with the exposition bring both buyers and sellers up to date on matters vitally affecting the premium industry. The industry supports a sizable publication, *Premium Practice*, "the magazine of selling through premiums, prizes, and advertising specialties."

If one is to issue a premium catalogue, or to contract for one of the stock catalogues, the opportunity to select from many articles of different kinds and different prices is made easier. If, in addition to the catalogue, a premium-service agent is employed to take the place of the premium department, then no item needs to be paid for until it has been accepted by the

consumer. Further description of the premium service will be given later.

Sometimes, as in encouraging responses to radio advertising, only one item may be offered. Then it is of the utmost importance to select one that will prove popular. The judgment of the advertiser who has not had extensive experience in handling premiums is not to be trusted. He is apt to select something that he likes personally. This is comparable to an advertiser's selecting a newspaper or magazine to carry his business messages because *he* reads it. He is not advertising to himself and should not be influenced by personal likes or dislikes.

After the premium has been tentatively decided upon and the campaign planned, it is considered good practice to subject the plan to a test. This can be done very simply or very elaborately depending upon the amount involved in executing the plan. The popularity of a radio premium offer can be tested on a few stations before the plan is put into effect nationally. Arrangements may be made with a few stores to give the offer a tryout. This should definitely indicate the expense that will be involved as well as the popularity of the offering. A complete premium campaign can be tested in selected stores in representative markets. Some manufacturers find it practical to use the house-to-house consumer-interview technique as a means of determining the relative popularity of various premiums. Regardless of how the pretesting is done, experience proves that it certainly is important that this precaution be taken. Pretesting would have avoided such mistakes as the offering of an electric toaster to housewives in rural communities where there was no electric current; the offering of roller skates to farm children; and the distribution of victrola records that would not fit all machines.

The Premium-service Agency.—Little is known about the premium service offered by many firms who are organized to conduct such a business and no other. There is a distant relationship between an advertising agent and a premium service. Both specialize in advertising. Both are able to give valuable advice, one concerning general merchandising plans and general advertising media, the other in a much narrower field concerning the selection of suitable merchandise for premiums and preparation of catalogues displaying the selected merchandise.

In another sense, providing premium service is much like running a wholesale house or a general store. Suitable selections of goods in many lines must be chosen, stocked, and shipped out on the requisition of consumers, who are given coupons by a manu facturer who supplies them. These coupons are accepted by the service the same as money and are later turned over to the manufacturer in exchange for real money.

If a manufacturer like Wrigley, Procter & Gamble, or Kellogg decides to go in for premiums, it will be necessarv to organize a special department, where all the items offered can be stored and, when requisitioned by consumers in exchange for coupons, shipped out promptly. This also assumes the selection and buying of suitable items, as well as the preparing of catalogues or other descriptive matter from which premiums may be selected.

Many times all this business is turned over to a premium service which does all that and even more than such a department would attempt. The service may issue a stock catalogue. This will carry the same list of items for all advertisers, but the value of coupons and coupon certificates will differ. For example, two such catalogues are before me as I write. One prominent item on the page is a drip coffee urn. The descriptions and illustrations are identical, but in one case the urn is offered for 130 coupons, in the other for 845 coupons. Another item is a Comet teakettle, with identical illustrations and descriptions, but in one catalogue 56 coupons will suffice while the other requires 380. The difference is in the value of the coupon. Evidently a coupon given out with a pound package of coffee should be more valuable than one given out with a 5-cent bar of soap.

The covers of the two catalogues are entirely different. One bears the name of the A.P.W. Paper Company, the other that of the American Grocery Company. In each the catalogue was made up and printed by the premium service, which selects, buys, and stocks the various items of merchandise. They are sold to the respective firms whose names they bear, and these firms distribute them as best fits into the campaign. Some services do not issue stock catalogues but print them up for each customer as needed.

An advertisement for one of the leading premium services states:

The charge made for merchandise shipped covers the following items. Every one of these expenses would have to be added to the factory cost of the merchandise by a manufacturer who operated his own premium department:

1. Choosing a line of premiums and preparing the premium catalogue, a time-consuming and costly job for those not familiar with such work.
2. Ordering premium articles.
3. Purchasing expense, incoming freight, express, cartage, etc., checking in and placing in warehouse.
4. Time of record clerks, checking orders for premiums, etc.
5. Time of stock clerks, laying out goods for shipment.
6. Time of shipping clerks, packing goods.
7. Time of stamp clerks, weighing packages and attaching stamps.
8. Cost of packing materials, boxes, etc., for shipments.
9. Postage or expressage on shipments.
10. Parcel-post insurance.
11. Cartage of mail to post office.
12. Interest on funds tied up in merchandise.
13. Loss in damaged and shopworn goods.
14. Accumulation of dead stock, a large item with manufacturers who conduct individual premium departments.
15. Overhead—salaries, bookkeeping, correspondence, rents, fire insurance, etc.

Each one of more than a thousand different articles we carry in stock, ready for instant distribution, is priced to cover the foregoing details of expense. As we perform this service for the largest premium users we are able to effect substantial savings for our customers and, in addition, furnish a more effective plan than could be devised by the individual manufacturer.

Advertising the Premium.—There is a great lack of unanimity in the ideas held by advertisers as to just how extensively the premium can profitably be advertised. The manufacturers of premium merchandise evidently are not in a position to advertise either the goods or the method of distribution. The premium service does not advertise except to those regarded as prospective customers for themselves. Both of these parties, however, urge the manufacturer who is using premiums to give them the fullest possible publicity. That is like the green-stamp publishers, who at the height of their prosperity required retailers to mention green stamps in their advertising.

The other side, or rather the other extreme, is illustrated by a manufacturer who tells the following story about his "premium temptation":

I manufacture a product which satisfies a human want. It is a good product; at least I have been able to retain a good many thousands of customers over a period of years. But I want to expand my market. I have just about decided to increase my advertising appropriation and set out to tell more people why my soap is so good that 200,000 Americans use it three times a day, we hope! The agency has prepared copy and layouts for my approval. I'm just about to okay these ads, when in comes the commercial agent for the Dionne Quintuplets. "Hold everything," he shouts. "I'll turn your thousands of customers into millions. Offer a full-color lithograph of the Quints for every three wrappers of your soap and the nation will bathe with Williams." Well, the very thought of this gets me a little excited and unstrung. So I turn to the account executive and direct him to have copy and layouts on this great idea in my office at 9 A.M. tomorrow.

Now it just so happens that tomorrow being Saturday I don't have time to look at the new layouts, so I take them home over the week end, together with the layouts which the agency had prepared previous to the cyclone. So on Sunday afternoon I go into a secluded corner to study these layouts. The new ones are great! The Dionne Quints are beautiful. But where's my soap? Finally I spy it, sticking out from under Yvonne's arm. So right then and there I ask myself what I'm advertising. The Dionne Quints, the chap who made the lithograph, or my soap? Why I'd be in the lithograph business if I ran this campaign! Yes, I'd sell lots of soap, but what would happen after I withdrew the offer? Not one cent of the campaign dollars I had contemplated would go toward telling why my soap was better than my competitors', when I knew—well, it was! So I decide on my original plan, and continue to sell soap."

Of course that was extreme. He could have advertised the beautiful lithograph without devoting the whole page to it. Besides, his customers would have had to buy his soap before they could get the picture. Then he could have told them on the wrapper or an insert what good qualities to look for.

The authors are frankly skeptical about any medium that of itself has to be advertised. For example, firms who pay thousands of dollars for talent pay broadcasting companies thousands more for time on the air. That is bad enough, but then they employ expensive space in newspapers, in magazines, and even

on the car cards to tell people about the good entertainment they are giving away. Suppose a magazine advertiser was asked to pay the author who wrote the story that appeared opposite his display! Then should he go out and spend a lot more money telling the public what a good magazine it was because *his* author had a story in it! Maybe the space would bring more returns if it were used to sell soap rather than a radio program. The same principle holds with premiums.

If a premium must be advertised, when the same space could be utilized to advertise the merchandise with which the premium is given, then the advertiser would seem to the authors to be selling premiums rather than goods. He has the reader's attention; why not take advantage of that golden opportunity to tell the story of his product? This does not apply to merchandising a manufacturer's advertising to his distributors. That is a different thing. It is not done to get the retailer to read the consumers' advertising, although that may be the result. Rather it is to show the retailer how he may profit by making use of the manufacturer's advertising in connection with his own. The object, in other words, is to avoid using good advertising space to call the readers' attention to other advertising, when the message could be delivered in the first place.

State and Federal Restrictions[1]

There is no special Federal law upon premium advertising by the manufacturer. However, there is a Federal law against lotteries or gift enterprises or similar schemes offering prizes or gifts dependent in whole or in part on lottery or chance. Broadly, there is no law (Federal in nature) against the use of premium advertising. Under certain provisions of the Robinson-Patman Act, only in minor aspects of merchandising—particularly applicable to dealer or retailer premiums—are there conditions which have to be observed. The reasons for these conditions are right in their intent, and they are simple regulations, easy to handle. They do not, however, in any way, affect the consumer application of premium advertising. The manufacturer's practice of premium advertising without the use of a redeemable token (*i.e.*, a coupon) is subject to no statutory restraint, either Federal or state, other than that imposed by the law against lotteries, fraud, misrepresentation, or commercial bribery. There are a few state rulings applying to the placing of a premium within the package of merchandise sold.

[1] "The Advertising Handbook," McGraw-Hill Book Company, Inc , p. 462.

There have been a number of "fair-trade laws" passed, some of which, in certain states, have application to the use of premiums. This legislation is so new that, at this writing, it is impossible to summarize its effects. It is not important in that, in the main, it does not affect the broad principles of premium advertising. However, before a campaign is undertaken, these laws should be checked. On the other hand, the manufacturer's use of a premium token (*i.e.*, coupon) is subject to the same statutory restraint against lottery, fraud, misrepresentation, and commercial bribery and to the same general restrictions as outlined above.

In addition, it is subject to a prohibitory law in five states—Idaho, Kansas, Montana, Nevada, and Washington. The Idaho, Montana, and Nevada laws are practically dead letters. To meet this situation, it is the usual practice for a manufacturer to state on the face of his coupon or token that it is void in any state or municipality where its use is directly or indirectly prohibited. Furthermore, coupons should, except under certain conditions, to comply with the laws of Indiana, Maryland, Nebraska, and Ohio, declare a nominal cash value.

For a more exhaustive discussion of the Federal and state laws and regulations as they apply to premiums, the reader is referred to "Premium Advertising as a Selling Force" by Frank H. Waggoner.

The Premium Advertising Association of America, Inc., is a departmental member of the Advertising Federation of America. Following is the code of ethics under which the members of the Premium Advertising Association operate:

1. Premium advertising shall be conducted at all times and in all ways in pursuance of the highest standards of commercial advertising.

2. Premium advertising shall be conducted at all times and in all ways in pursuance of the fundamental principle of right, honorable, ethical, and lawful business practice.

3. Premium advertising shall be wholly free from the use, in particular, of

a. Misrepresentation, deception, fraud or exaggeration with respect to the premium offer and merchandise.

b. A lottery or other similar scheme involving the element of chance and any other scheme or method that is contrary to good morals or public policy.

c. Merchandise that has no value or is not of the represented value.

4. Every effort shall be made to maintain premium advertising on the highest plane of integrity, value, and public service. Any member

having notice of any infraction of the foregoing standards of practice by any other member shall promptly report it to the Association. A willful infraction shall be ground for expulsion.

Wrigley's Use of Premiums.[1]— The origin of the use of premiums in so far as the Wrigley Company is concerned goes back approximately 44 years. Its founder, William Wrigley, Jr., began in Philadelphia as a salesman for a soap business and originally used premiums with sales of soap; one premium which he used was lamps, and there were other articles which were popular in that day. At one time it was his thought to consider the use of a new product. Looking over the various fields of manufacture, he noticed that an article had appeared on the market which was comparatively new and which had not reached any great stage of acceptance by the public, but Mr. Wrigley felt that it would be one which would catch on very fast and become an article which was profitable to the retailer. This proved true, and chewing gum did have consumer acceptance, in fact, so much so that he saw a great possibility in merchandising this product, with the result that he went into the chewing-gum business.

While it is true that the backbone of the business and the factor which creates consumer acceptance is fundamentally advertising, Mr. Wrigley made use of premiums, which proved to have an influence in creating public demand. Premiums have been a factor for the entire life of the Wrigley Company.

Premiums were advantageous for all the people who were in the chewing-gum business in the early days. The retailer benefited in that he received an exceptionally good buy and, in addition to the chewing gum at a regular profit, he obtained merchandise which he could resell, use in his store, or even employ in his home. At that time the system of distribution had not reached the competitive stage that it has today, and service was not at its best. It was to the retailer's advantage to put in a supply which would take care of him until his wholesaler's salesmen serviced him again.

It was to the wholesaler's advantage to use these premiums, as they stimulated buying by the retailer and he sold more than the retailer ordinarily purchased without the premium inducement. The wholesaler handled the Wrigley premiums in three different manners:

[1] A story prepared by the Wrigley Company for this text.

1. General deals were put out on a large basis. By "general deals" we mean shipments made to jobbers packaged in multiple units which, when unpacked, represented so many deals. Each deal would consist of a carton containing a certain number of boxes of chewing gum and a piece of merchandise, which the jobber in turn sold to his retail customers as a unit (each box of chewing gum that we refer to consists of 20 5-cent packages, and the brands which were included primarily were Wrigley's Spearmint, Doublemint, and Juicy Fruit, which today are known and recognized in 133 countries of the world and advertised in 28 languages). In using these deals the Wrigley Company became one of the largest users of premiums, buying carloads of such nationally known items as Hamilton electric clocks, Gillette razors and razor blades, Eagle pencils, Ingersoll watches, and numerous other items which have proved to have great acceptability with its retail customers. As a result of this, retailers for years have been in a habit of looking forward to the deals which their wholesalers offer them from the Wrigley Company, as these deals consisted of such well-known and accepted merchandise in addition to chewing gum, which for years has had a great profitable turnover for the retailer.

2. The second manner in which premiums have been used has been in the famous Wrigley Redbook Catalogue, which for years has shown fixtures for the store and articles for the home, which the retailer has been able to obtain at great savings, sent promptly to him by the Wrigley Company. This catalogue has been very popular, having been brought out on a yearly basis, and in its way it has been used by the retailer in a manner comparable to that in which the consumer has used such famous catalogues as those of Sears Roebuck and Montgomery Ward. The number of items has always been comparatively limited but the ones included have been those which the Wrigley Company has felt were giving the retailers the best benefit of the Wrigley Company's tremendous purchasing power. Today one can go into thousands of retail stores and find articles which have been purchased years back still in good use. Every catalogue contains the most up-to-date, modern merchandise which is on the market when the newest edition of the catalogue goes to press. Today the most popular items included in this catalogue are electric fans (large ones for store use), personal files, General Electric clocks, Belmont

radios, and Hamilton Beach equipment, which is a familiar name from coast to coast.

These units were priced to the retailer so that the cost per box of gum was the same as he ordinarily paid and the merchandise was sold to him at a price well under that for which he could normally buy it, giving him the same advantage as if he had bought the article in great quantities such as the Wrigley Company had bought.

3. A third way in which premiums have been used by the company has been in a catalogue which has gone to jobbers' (wholesalers') salesmen. Items presented consisted of personal effects, for themselves, their wives, or their families. They have proved quite an incentive to sell Wrigley's gum. Fishing rods, sport coats, dinner sets, kitchen equipment, toys for children, such as bicycles, scooters, etc., have been bought by the thousands by the Wrigley Company and given to "these Knights of the Road," who for years have been a great factor in the popularizing of Wrigley's chewing gum to retailers and reminding them to keep a good stock of Wrigley's chewing gum on display at all times. These salesmen's catalogues are mailed direct to the salesmen, who pick out, either for themselves or for their families, items which they receive entirely free for their effort in selling Wrigley's chewing gum. The various items are given with the sale of so many boxes to retailers, according to the value of the item.

The depression brought on quite a change in retail buying. With the restriction of credit, the natural tendency has been for the retailer to resort to "hand-to-mouth buying." However, the Wrigley Company's policy has been the same—quality merchandise with quality products. It uses every bit of its resources to give the retailer the best buy that it can. Its three largest and fastest selling brands—Spearmint, Doublemint, and Juicy Fruit—have continuous distribution and demand, but the deals continue as they have in the past as a reminder now to the retailer not to run out or get too low on these and other products which have a good turnover.

Contests.—So far in this chapter we have given primary attention to the distribution of premiums as they are commonly known. It should be pointed out, however, that premiums in the broadest sense of the term include all merchandise distributed for promotional purposes, regardless of the method of distribution.

Whether a person receives a certain piece of merchandise as a result of saving so many coupons or for submitting a meritorious essay, the fact remains that the merchandise is a premium in both cases. It is a form of inducement, another premium plan. The fact that a good many prizes are cash does not alter this fundamental concept of the contest. For that matter, coupon premium plans frequently provide for redemption of coupons either for cash or for merchandise. In a prize contest, the *chance* of winning a large prize is the incentive in contrast to the *certainty* of securing a premium of less value. In the case of the prize contest, only the winners are made happy. The mental attitude of the losers toward the advertised product is not definitely known. The fact that it might be unfavorable in all too many cases is the big question mark with respect to prize contests. There is certainly room for research in this particular aspect of modern merchandising.

Before discussing some of the problems of conducting a contest, it is important first to analyze the marketing situation which caused the subject of contests to be brought up at all. The desire for more sales is the usual objective. Commonly contests are used in promoting the sale of highly competitive products, purchased frequently, for which it is difficult to produce advertising that will sell the product in sufficient quantity. This means in most cases that the appeal is not in the product or that an advertising idea has not been developed that will build consumer demand. It should be noted that many advertisers in highly competitive fields have been able to produce advertising that does not require the added inducement of premiums in the form of merchandise or cash.

Since contests are a means of stimulating action, they are used among the same groups that are offered premiums in the more conventional way, that is, manufacturers' salesmen, jobbers' salesmen, dealers, and consumers. What has been said concerning premium plans among salesmen and dealers applies with equal emphasis to contests. It is especially important that no contests be conducted among jobbers' salesmen without the consent of the jobber. Every effort should be made to place contest literature in the hands of each salesmen by mailing it to his home, if the jobber permits such a practice. A contest that allows the star salesmen of any organization to walk away with all the prizes certainly should be avoided. A simple merit

system which makes it possible for every salesman to earn something is worthy of careful consideration. Such a plan would prevent the weaker salesmen from coming out of the contest completely discouraged. These are the very men who need encouragement most. Some sales executives contend that the offering of prizes to salesmen is not an idealistic way of getting men to work. It has a tendency to pull down rather than to build up the principles of salesmanship. The firm's policies may be brushed aside in the mad scramble to land orders. A contest for manufacturers' salesmen, jobbers' salesmen, or dealers should not be announced until it has been gone over carefully with men who have had wide experience with contests. Otherwise, it might defeat its purpose.

Consumer contests are of course best known and it is with them that this chapter is primarily concerned. The basic decision which must precede a consumer contest has already been discussed. After it has been decided to conduct a contest, some of the many questions which present themselves are: What will be the requirements for entry? What will be the rules of the contest? What about prizes? How many? How will the contest be promoted? How about handling the mail? Who will be the judges?

Elsie Rushmore, contest consultant, offers some sound advice which helps to answer some of the above questions. According to Miss Rushmore, there must be good distribution of the product in the territory covered by the consumer contest. The qualifying enclosure should not cost any more than 25 cents, preferably less, and should be easy to enclose. The rules must be absolutely simple and obviously fair. The prizes should, if possible, be money. (Authorities disagree on this point. Since merchandise prizes are purchased by the manufacturer at wholesale prices, it is contended that the consumer gets greater value in the case of a merchandise prize.) The media coverage should be adequate. Mail should be handled with scrupulous care. All correspondence should be answered, and announcement of winners should be as prompt as possible. The contest should have some real human interest.

It is especially important that the manufacturer conducting the contest be prepared to handle the contest entries with efficiency and dispatch. This is such a tremendous task for a large

contest that the work is usually delegated to an outside organization that specializes in such work. The task of opening the mail, checking for qualifying enclosures, and judging is tremendous. Some authorities insist that it is important to acknowledge every entry, whereas others feel that this is an unnecessary expense. Their point of view is that the consumer knows that the possibility of winning is remote and does not expect such an acknowledgment. Here again research would throw light on this phase of contest procedure.

There have undoubtedly been many contests that could be called successful. But invariably there is a lag in sales following a contest. Sometimes sales drop to the precontest level, sometimes 8 per cent below, and sometimes remain above. If one contest after another is necessary to keep a product on the market, what will be the ultimate result? Contests undoubtedly have their place in modern merchandising. They provide a means for focusing the spotlight of publicity upon a product for a short period. The big problem is to conduct the contest in such a way that the long-pull results will be favorable. Accumulated experience and research will make this possible.

BIG CONTEST—NO LOSER[1]

$20,000.00 IN *CASH PRIZES*
5,000.00 FIRST PRIZE
1,000.00 SECOND PRIZE
500.00 THIRD PRIZE

HERE'S HOW TO WIN

Some of 'em are big and some of 'em are little but in this contest no one loses—there is a prize for everybody. We want you to know first how good-tasting and wholesome Pepsi-Cola is. So first of all sample Pepsi-Cola—then with twenty words or less finish the sentence: "The Pepsi-Cola Home Carton is our family's favorite because—." Sign your name and address in the proper space on the coupon below and mail, together with the flap from the carton. Get in this simple, easy contest now—there are prizes for all who enter—and the first prize is $5,000.00 cash.

1,606 CASH PRIZES * EVERYBODY WINS!

FOLLOW THESE SIMPLE RULES

1. Fill in the blank lines with 20 words or less in the ENTRY BLANK appearing below. Sign your name and address in the proper places.

[1] Part of an advertisement for Pepsi-Cola announcing a contest.

2. The ENTRY BLANK is intended for your convenience only. You may submit your entry on any sheet of paper. Use a separate sheet for each entry. Be sure to write your name and address legibly on EACH sheet.
3. You may enter this contest as many times as you like, but each entry must be accompanied by the red and white handle flap cut or torn from a PEPSI-COLA 6-BOTTLE CARTON. Mail your entries to PEPSI-COLA CONTEST, P. O. Box 911, Grand Central Annex, New York City.
4. This contest closes June 22,—12 P. M., 1940. Entries postmarked later will not be accepted.
5. Entries will be judged for originality and sincerity. In the order of their excellence, entries will receive the following awards: First Prize $5000; Second Prize $1000; Third Prize $500; Fourth Prize $250; Fifth Prize $150; Sixth Prize $100; Twenty Prizes, each $50; Eighty Prizes, each $25; Five Hundred Prizes, each $10; One Thousand Prizes, each $5.
6. All decisions of the judges will be final. Elaborate or fancy entries will not count extra. Duplicate prizes will be awarded in case of ties. No entries will be returned.
7. By submitting an entry, and in consideration of its being accepted for judging, you consent to PEPSI-COLA COMPANY using such entry or any part thereof for advertising purposes, and consent that your entries, contents, and any ideas contained therein become the property of PEPSI-COLA COMPANY.
8. Employees of any PEPSI-COLA COMPANY, their subsidiaries, their advertising agencies, and members of their families will not be eligible for prizes.
9. Winners will be notified by mail on July 15, 1940. Sometime after that date a desirable little prize will be mailed to all entrants along with the complete list of cash winners.
10. Contest is subject to all Federal, State and City regulations.

Winners will be chosen by an independent, impartial jury of experts under the direction of the Reuben H. Donnelley Corp.

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CHAPTER XVI

Packages and Package Inserts

Packaging Is a Broad Subject.—The term "package" as used in this chapter refers to all types of containers used for the purpose of holding merchandise in individual units from the point of production to the point of use. It includes cardboard boxes, bottles, cans, tubes, wrappings of all kinds, etc.

The development of package merchandise has been one of the most significant trends in modern merchandising. The packaging of goods formerly sold in bulk not only has resulted in benefits to the consumer but has made it possible for the manufacturer to protect his market by retaining the identity of his product. Without product identification, mass selling (advertising) would not be possible, and, of course, without mass selling this country would not now be enjoying the benefits of mass production. Mass selling and mass production are largely responsible for our high standard of living.

Each decade brings a new standard of cleanliness and sanitation. It is not so many years ago that such articles as raisins, prunes, tea, coffee, spices, and sugar were sold in bulk to the grocer. He weighed and wrapped them up in such packages as were most convenient and least expensive for him to provide. A few of these items are still sold in bulk, but bulk sales in retail trade decline every year.

The design of a suitable package is the work of an expert who understands such highly technical subjects as materials, automatic and other machines which process these various materials, and the use of principles of design and colors most advantageous to make the package attractive. In this chapter only those

elements will be considered which are of primary importance to the sales campaign. It is not the purpose to provide the first course of instruction for those who want to make a profession of package designing. Rather, it is the purpose of this chapter to

These designs by Paul Ressinger for Montgomery Ward's line of drug and toilet articles are an excellent example of family packaging, free from monotony. Note how each bears a resemblance to the other, yet each has an individuality of its own Ressinger has succeeded in giving these items a look of quality and a "professional" character

provide certain guiding principles which will prove useful to the reader when dealing with any packaging problem.

Such professional men as attorneys and architects are called upon to assist their principals in doing a job as the principal wants it done. With neither may the employer turn the responsibility over wholly to the expert. If he is wise he will not merely direct the attorney to draw a contract; he will work with the man

of law, explaining the fine points and pointing out dangers against which he wants to be protected. It is only after all the circumstances are fully understood and their relative importance weighed that the lawyer is ready to proceed. So also with the architect. He must know the requirements, uses, and funds available before drawing his plans. As much, or more, is true of the package designer.

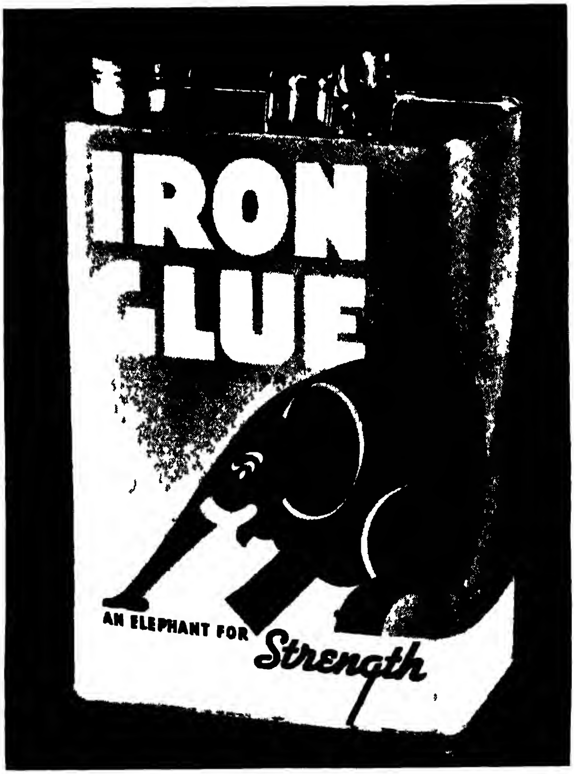
A complete, detailed list of all the possible functions of a package would be too unwieldy to be of practical assistance to the student of marketing or to the business executive who is faced with the problem of designing or redesigning a package. There are four extremely important functions, however, which should be given careful thought and consideration.

The Manufacturer's Package Requirements.—Unless a product reaches the point of use in perfect condition, it will not give the consumer the satisfaction for which it was intended and the effect will be to limit or discourage future purchases, thus defeating the ultimate purpose of marketing—to build good will which ultimately means profit. An important consideration is that the product should be safely protected by inexpensive shipping cases; that is, the package should lend itself to easy packing and transportation without damage.

The next requirement is that the package be such as to facilitate sales by distributors. It should be thought of definitely as part of the advertising campaign. A good package acts as a reminder advertisement at the point of sale. If it is so designed as to make attention and recognition assured, it will carry the customer's mind back to the advertising that has reached her through other media. If the package has low visibility on display, it throws a great burden on the other consumer advertising.

The manufacturer also wants his package to be of a nature that helps the ultimate consumer to use the product to the greatest advantage. It should preserve its contents in the home while awaiting use. It may have a tight-fitting cap or cover; it should not be so large that deterioration of contents may result from exposure. To facilitate use, it may have a shaker top like the spice tin, or a spout that makes it easy to pour like the salt box. It may be planned for further use after the original contents are exhausted. In all this, the manufacturer's interests are the same as those of the consumer, except that the former is concerned

that the expense of the container shall not be so great that it is out of proportion to the value of the product it protects. This is, of course, also in the consumer's interest but seldom is really understood by her. She is apt to think that the price of *X* is



This container, designed by Jim Nash, is an excellent example of the effective use of a trade character which convincingly illustrates the slogan, "An Elephant for Strength" The trade character is also given prominent display in the company's advertising

high, without appreciating the extra value that the container may offer.

The manufacturer should also be aware of the requirements of the store and in so far as possible should provide packages unobjectionable to the merchant. The package that is easily marred or broken, or that will not fit the store's display shelves, is an inconvenience.

Every retailer likes to have a nice-looking store. Packages of attractive design are frequently given preferred position among the displays. Labels should give sufficient information so that a clerk can find the answer to a majority of the intelligent questions which the customer is most likely to ask. The sizes of packages should provide the most popular quantities requested. These are the packages which a clerk reaches for when no particular one is specified.

The Consumer Also Has Package Ideas.—It would be a courageous author who would attempt to summarize the likes, needs, wants, and dislikes of consumers for any product or service in a single paragraph. To assume as much for the package presents as many difficulties. However, there are a few generalizations that may be helpful. To seal up a package so securely that attempting to open it is comparable to "blowing a safe" may not kill the sale, but it will be a strong deterrent. Failure to give complete and explicit directions for the use of a new product, or one whose use must be guarded, is an annoyance. To pack too little for convenient use, or too much, is regarded as a good reason for changing to another brand. A prune packer conceived the idea of saving money by using a 5-pound carton. It was more than the average family wanted to buy at one time. Realizing his mistake too late, the following season he went to the opposite extreme and reduced his package to a 1-pound size. That was too small, and, besides, in such small amounts the prunes dried out to their hurt. At last he adopted a 2-pound carton, which proved popular, but not until after he had lost a vast amount in two foolish experiments.

Most women like routine buying made easier by packages readily recognized. The name of the product, or of the trademark by which it is identified, should be conspicuously displayed, so that it can be read easily at some distance. The amount, especially if it is packed in different quantities (as pound and half pound), should also be prominently lettered. In the appropriate place upon the package may be included such ideas as suggested uses of the product, cutouts for children, premium offers, recipes, information regarding grades and quality, and, of course, the information required under government regulations. If the package by its beauty or utility, the information it conveys, or for other reasons causes the purchaser to enjoy greater satis-

faction from the use of the product, then the package has helped to convert an initial purchaser into a regular customer. The success of any product is determined by repeat sales.

Some things a consumer likes about packages were mentioned in the preceding paragraphs. If the product is to appear in the bathroom or in a guest room, an attractive package is appreciated. The same thing is also true of items that may appear on the table in the original package. There is no doubt that Lea and

This package is an excellent example of the proper utilization of all the display surfaces of a package This simple, bold design is excellent for mass displays.

Perrin's Worcestershire sauce loses many sales because of the unattractive container. Did you ever see a bottle on a table in a private home or in a high-class restaurant? It will be served if requested but is too uninviting to appear on a well-set table.

If the product is for a gift, as a box of candy, an attractive, even an expensive, box will be acceptable, but in the case of items bought frequently, and primarily for family use, an unnecessary charge for a container is resented.

Deceptive packages, where the display in a store leads one to believe that the quantity is greater than it proves to be when opened in the home, is not only poor business; it is illegal.

The Basis of Intelligent Package Design.—The basis of intelligent package design is utility. This requires a careful study of the conditions under which the product is packaged, distributed, sold, and consumed. Realizing the importance of thoroughness in making such preliminary studies, the Society of Designers for Industry has just concluded a series of conferences for the purpose of building a check list as a guide. The original objective of the Society was to agree upon a number of definite guiding principles of procedure which would apply to all cases. As the discussions proceeded, it was soon discovered that there was not a single rule of package design that had no exceptions under certain conditions. Hence there followed the decision to use the following check list as a means of making sure that essential details would not be overlooked.

As protection of the product is fundamental and must be provided at all costs, financial, aesthetic, or convenience, factors providing protection will be enumerated first:

1. What is the nature of the product to be packaged?
   a. New product?
   b. New service?
   c. Old product?
   d. Old service?
2. How many uses has it?
3. How is the product packaged at the plant?
4. How does the size and type of package affect storeroom procedure?
5. What consideration should be given to the construction of the package to withstand:
   a. Damage in handling?
   b. Piling or stacking?
6. Which type of package is the most efficient or economical?
7. How much money can be spent on packaging?

Selling and advertising are highly desirable provisions for a package. The following points are to be considered under this head:

1. Are there any special sales angles which will influence packaging?
2. Which is the best appeal?
3. Does the sale of the product depend upon display efficiency?
4. What are the habits, the likes, and the prejudices of prospects in relation to the product?
5. Will the package be subject to
   a. Casual observation?
   b. Continual observation?
   c. Close-up study?

6. Can the package visualize the product to tell the buyer what he or she wants to know without the need of questioning the sales clerk?

7. To what extent can the package make the consumer cooperate in the purchase?

8. Can the package be designed to promote profitable sales?

9. Will the package have preselling through advertising or must it do its own selling at the point of sale?

While, in a sense, attention and display are part of advertising and selling, there are so many factors to be considered in designing an attractive package that will have display qualities that these factors are placed by themselves.

1. What are shelf conditions?
   a. Advantages.
   b. Disadvantages.
2. Which does the retail trade prefer to display?
   a. The "lie-down" type?
   b. The "stand-up" type of package?
3. How will the package be seen by consumers?

Competition and use are by no means synonymous, but as the strongest point in competition often relates to convenience of use, the factors involved in each are grouped together.

1. How much consideration does a consumer give to price?
2. Is the product superior to similar products on the market?
3. What competitive brands already occupy the field?
4. How are competitive products packaged?
5. What is the strength of each?
6. Can the package be used for another purpose when empty?
7. What properties should a container (as pepper shakers) have to facilitate the use of the product?
8. Can the package be so designed that the consumer has no difficulty in getting at the contents?

Changing a package, or the well-known but ugly and outmoded label, was so important that it was given separate consideration. The points raised for determination were

1. What objectives should be sought in making package changes?
2. What objectionable features existing in similar packaged products should be eliminated?
   a. Size?
   b. Storing?
   c. Display?
   d. Put-up?
3. Should the package change be made gradually or rapidly?

4. Will the package that is differently shaped:
   a. Ship better?
   b. Stack to better advantage on the retailer's shelf?
5. In what way can package redesign make savings possible?
6. How may sales be increased through improved package design?

Testing the Package.—After a package has been designed, the ideal method of testing is to print up a few thousand in various colors and place them in stores under actual sales conditions. Sales tests can also be made of two or more designs that may be under consideration. The package which shows up best as a result of a sales test in representative outlets is the one to be used. If it is not possible to conduct such sales tests, then the final selection may be made after the dummy packages have been put on the shelves or on display among competing packages in typical outlets. The package of the color and design recommended by experienced designers can be used with assurance that it will be successful in so far as its function is concerned. A few dollars spent in testing a new package is valuable insurance against costly and tragic mistakes.

The industrial designer is impatient with any clouding of the major objective—sales. He is impatient of any considerations which would tend to minimize the effectiveness of the package from the sales standpoint. Oddly enough, the practical designer, and their number is increasing, finds today that the people in business who are concerned with the aesthetic appearance of their packages are the executives. To his surprise, the industrial designer has found it a hard job, in too many cases, to persuade an executive to accept a package solely from the standpoint of its sales and merchandising effectiveness and divorce himself from any consideration of its artistic merits.

Egmont Arens, one of the leading industrial designers, takes this realistic attitude. He says, "Don't judge your package by its appeal to you. If it sells, it is probably attractive." What Mr. Arens means, of course, is that a package which is designed for selling is probably like a machine or airplane, which is designed primarily for its function and therefore also possesses beautiful lines. Mr. Arens likes to tell the story of an executive who requested him to design a package which would express the dignity and leadership of his concern. He insisted that he wanted a package that would be elegant and impressive. Mr.

Arens told the client, "All right, I'll do it, if you will do one thing for me. I'll design the kind of package you want if you will agree to go out in the stores with me and see how the package shapes up under actual sales conditions." The executive agreed. Then Mr. Arens went away and created the new package. He brought it back to the executive's office, which was done in rich, warm tones, and placed the package upon the wide, polished mahogany desk. The executive looked at it and exclaimed, "Boy, that's what I want. That's the job."

"Wait a minute," said Mr. Arens. "You promised to go out in the stores with me to see how your package looks under actual store conditions."

"Never mind," said the executive, "We'll take it."

"Oh, no," was Mr. Arens' reply. "You've got to come with me and visit some stores."

They went out together, visited a number of stores, and placed the package on the shelves where it would be customarily displayed. Alongside its competitors and under the lighting conditions in the stores, the new package simply faded away. At the end of the day, Mr. Arens turned to the executive and said, "Now, I'll design the kind of package I think you ought to have."

The next day he returned with a package which represented his idea of what the company's package should be. He placed it on the same mahogany desk.

"I don't want that. It looks cheap, flashy."

"Well," said Mr. Arens, "Let's see how it looks in the stores," So to stores they went. The new package was placed on the shelf with its competitors. It stood out. It had high visibility on display. It was distinctive. It had shelf appeal. The executive admitted that Mr. Arens had proved his point.

Consumer-jury Method of Testing.—Frequently, dummy packages are submitted to consumers in order to ascertain their preferences. It is well to question the validity of many of these tests, because the subject interviewed is not in a buying mood. The selections are made between various designs of the same package rather than among competing packages under sales conditions. A *judgment* reaction may not be the same as a *buying* reaction. This point can be illustrated by relating the experience of a large distributor who, as a result of consumer opinion, packed olives in bottles that were squatty, with a wide mouth

from which it was easy to remove the olives. What was the result? The sales of olives fell off and he was forced to return to the tall bottle. The new bottle did not have the display value of the old, which showed a large expanse of olives.

This is a relic of the "order-of-merit" system of judging consumer displays or advertising. The idea was to have a representative jury rate different displays in their order of merit. The highest ranking was first choice. The great difficulty is to get members of the jury to judge according to the buying standard. If jurors were asked which bottle of olives was the most attractive, the artistic bottle would be chosen. But if the two bottles filled with olives were placed together and the question asked, "Which would you rather have?", probably the one which best displayed the olives would be chosen.

A distributor had a similar experience with jars for preserves and jams. A designer was commissioned to develop a special jar which would go well on any table setting, would have a wide mouth, was squatty in appearance, and would permit easy removal of the contents. A beautiful jar was designed in accordance with these specifications, and the jams and preserves were placed on display in retail outlets. Sales were so unsatisfactory that the distributor was forced to return to the tall jars in which the products were originally packaged.

Trends in Package Design.—For many years packages had been thought of primarily as protection for their contents, and little attention was paid to the sales value of their appearance. When manufacturers first became aware of the fact that women played such an important role in purchasing, they began to wonder whether their packages could not be made more attractive to women and thus have more sales appeal. Naturally enough, they assumed that packages, in order to appeal to women, should be pretty and that in order to secure pretty packages they should hire artists. They went to artists who were illustrators but who knew little about selling or merchandising. Nevertheless, some of the changes in package design resulted in amazing sales increases. More and more artists were being called upon to improve the appearance of packages already on the market and to design packages for new products Naturally enough, a number of these packages were impractical, either for production, shipping, or display or as sales tools. Soon tales were

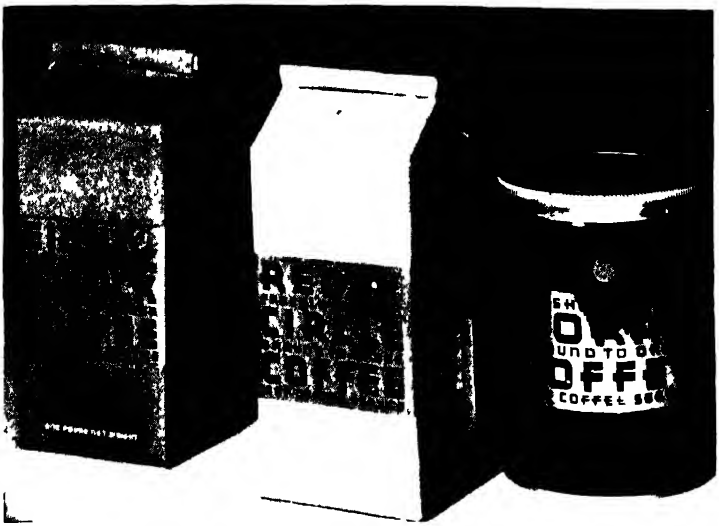
heard of large sums lost, sales hurt, and other sad experiences. Package designing received a black eye.

It was at this point that the industrial designer entered the picture. The term "industrial design" was first coined about 1919 by Joseph Sinel, one of American's foremost industrial designers. It was developed to denote that type of design used

In redesigning this package, Paul M. Ressinger carefully retained the essential identifying elements of the old. At the same time, he simplified the design so as to give the package a more pleasing appearance and higher visibility on display.

by industry to sell its products. It covers today both the products themselves and the containers in which they are packed. The competent industrial designer is a combination artist, designer, psychologist, and merchandising and advertising man. The creations of the modern industrial designer today are a far cry from the extreme modernistic atrocities that were first conceived in the name of "modern." Modern art has come of age, however, and is now more accurately reflecting the modern age in which we live. It is far from static, and trends are continually making themselves felt.

The industrial designer must be a student of trends. His package problem may require that he go with the trend or go in the opposite direction for the sake of contrast. One example of going in the opposite direction, with success, was in the redesigning of a line of food products for the New York market. Since New York is known as a white-label market in the canned-food field, the client suggested to the designer that his labels have a



Note how the A & P coffees are designed with mass display in mind. The large areas of color are extremely effective in attracting attention and the bands are especially good when the packages are lined up with one another. Designed by Egmont Arens.
The Bokar coffee is now packed in a black bag instead of the metal can.

white background. The question asked by the designer was, "Do you want your packages to tie in with your competitors, or do you want them to stand out on the shelves?" The reply, of course, was to the effect that he wanted his packages to stand out. The problem was met by using gold ornamentation and a large amount of brilliant red-orange in large solid areas.

The Problem of Mass Display.—As previously stated, a package cannot be intelligently designed unless the designer is familiar with the manner in which it is placed on display in retail outlets. The rapid growth in the number of super markets throughout the country has resulted in a design problem of extreme importance,

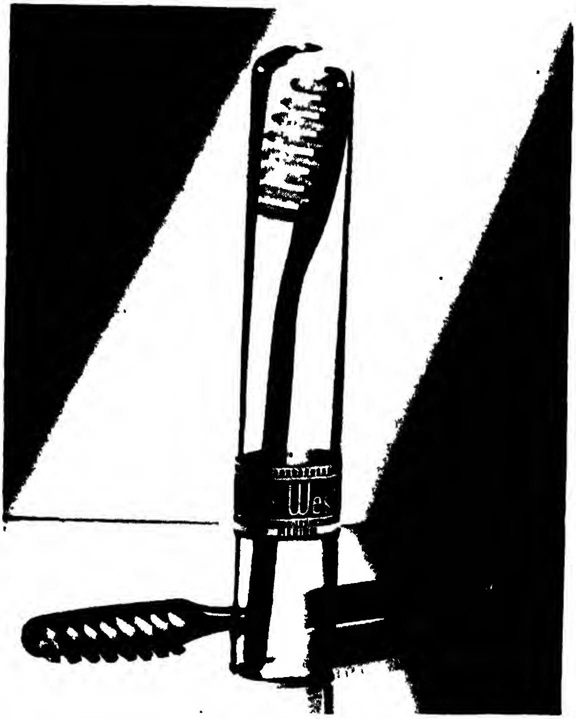
if the product is used in mass display. When several packages are stacked side by side, either the result is a unified effect, with the packages "pulled" together with such elements as bands, or the combined effect is uninteresting and meaningless. A good example of unified effect produced by cans in mass display is in the case of Campbell's soups. A display of these cans gives the effect of a band of red and white. The A & P coffee packages were designed with the same principle in mind. This is not always a design problem, however, and no generality is intended.

It is not a very good idea to have preconceived general attitudes regarding the use of colors. It has been said that a good artist can use any color he chooses by applying it in its correct intensity and extent and in combination with other colors discreetly selected with regard to the laws of harmony and contrast. The choice of color in package design should be determined by the functions of the package. Some of the most successful designs have been those which went against popular conceptions regarding color. The most practical designers do not depend on color systems in their designing. Color should be treated as one of the elements in a package rather than the major factor. Care should be taken about such ideas as making colors appropriate to the contents. It is this type of thinking that accounts for the great number of brown coffee packages, with the result that individuality is frequently lost.

Package Materials.—Generally speaking, manufacturers are very careful in selecting those packing materials which will best protect the goods. Everyone, however, has had the experience of buying a product and finding it unsuitable for use because of inadequate protection. When the question of package material comes up for consideration, it is sound advice to suggest that all materials be considered. Just because a product has always been packaged in one way may not be a valid reason for continuing to use the same method.

An open mind in connection with this problem resulted in a change from tin to a vacuum-packed glass jar with the result that package costs were reduced and better display of the product (luxury cookies) increased sales. The reader should not jump to any conclusion regarding the best way for packing luxury cookies or any other product. There is no one best way for packing anything, because, no matter how good any method is, there

is a chance that that method can be improved. Alert manufacturers are always on the lookout for better packing methods, bearing in mind that nothing is so constant as change. Occasionally, reviewing the firm's packages with manufacturers of various kinds of package materials will assure against oversight



Glamorizing the lowly toothbrush. This package designed by Paul Ressinger dramatizes the fact that this toothbrush is sterilized and also gives it a strong quality appeal. The neat paper band, with its simple, easy-to-read, yet stylish lettering, attracts the eye and gives the important details at a glance. The package also allows the consumer to see details of brush color, etc., and to check without having to open the package.

of the possibility of doing a better job with a new material. Consultation with package-materials manufacturers is indispensable when the product to be packaged is perishable.

The research in this field that has been done by such firms as the Robert Gair Company, the American Can Company, and the Continental Can Company is worthy of special recognition.

Progressive manufacturers of containers and wrapping materials of all kinds are in a position to give valuable advice in the fields of merchandising and selling as well.

In connection with the selection of packaging materials, it is important to point out that the manufacturer cannot be sure his selection has been wise until actual tests have been made. Only the actual handling of the product through the various channels of distribution to the point of use will tell whether the product is properly packaged. Such tests should be made, in some cases, under varying climatic conditions; for example, no kind of fabricated material has been found which will keep tea fresh in Alaska. The problem of the selection of package materials is complicated by the fact that the material which gives the best protection might not be the material which will result in the largest volume of sales. Buying habits must be taken into consideration. If the container is so good that it appears to be too valuable to throw away, the housewife may cease buying the product when she has a sufficient number of containers for her use. This has happened in the case of expensive candy boxes. Without wishing to take sides in so controversial a question as to which is the best material for packaging coffee, the authors maintain that the package material does have a bearing upon sales.

Sizes of Packages.—Just what size a package should be is often open to discussion and is extremely difficult to determine. Campbell soup and pork and beans are all put in one-size cans. It is supposed to be sufficient for one meal for a small family. It has always been the contention of this firm that, if more is needed, it is better to have the customer buy two tins than to make two different sizes. Fletcher's Castoria has always been sold in one size. So also has Sani-Flush. Mr. Schlabach, president of the manufacturing company which makes it, contends that one size of package, one size of case, and one price simplify business to the minimum and make the maximum profits possible.

Some manufacturers have gone to the opposite extreme. One of the leading manufacturers of baking powder puts his product in 2-, 3-, 4,- 6-, 8-, 12-, 16-, 32-, 48-, and 80-ounce cans. All these needless sizes of containers did not increase the sale a dollar's worth over what it would have been with a quarter of the number of different packages, while the expense was very materi-

ally increased. First of all, there had to be the tins in which the baking powder was packaged. The space required for storing these was twice what it might have been with a smaller variety of sizes. Labels had to be prepared for the different sizes of tins, which very greatly increased the cost of making the labels. Shipping cases had to be made to hold the different sizes. The bookkeeping was also considerably increased by the wide variety.

On the other hand, a manufacturer who is too insistent upon making the consumer buy what the manufacturer thinks is economical will probably also be a loser. One tea packer insisted that a half pound was the minimum economical size for selling tea. This was so much that it tended to deteriorate on the pantry shelves of every small family which uses only a limited amount. Thomas Lipton began putting his tea in small-size tins and advertising them extensively. The older tea merchants criticized him on the score that the package cost as much as the tea which went into it. Nevertheless, giving customers tea in the quantities they felt they could best use soon helped to build up a business that left competitors far behind. The impression, however, should not be left that it was the size of the package alone which accounted for Lipton's success; a good product, packaged in a container that kept it good and provided a portion small enough so that it did not deteriorate before use, was the winning combination.

Package Inserts.—One thing that should always be considered when a package is being designed is the advisability of using a package insert. This is a detail that is frequently overlooked. In many cases the label or package cannot carry the complete message that the manufacturer wishes to convey. The insert solves this problem and also offers many merchandising opportunities. A careful study of the possibilities of package inserts has been made by a staff writer of *Sales Management*. The following discussion is adapted from an article printed in the February, 1938, issue of that magazine.

Package inserts are not treated by most companies as potent sales builders, a survey of several hundred advertised products indicates, but rather as something the shipping clerk sticks in to prevent breakage.

Package inserts are a direct, essentially economical method of advertising. In every other medium there is a distribution cost

involved. Publications, radio stations, and all other media must include in their rates the cost of transporting the advertiser's message, but with package inserts the consumer pays all the freight. There is no waste—unless the goods do not sell, in which case the advertiser goes broke anyway.

Though tens of millions of inserts are enclosed with packages each year, there seems to be a disconcerting lack of efficiency and effectiveness in the general use of this small but vital unit. They are not treated with the degree of creative planning which is applied to other forms of sales-promotion material. Perhaps this is due to the fact that in the general routine the package insert becomes a packaging item, and, as such, remains more of an item for the production department than an active sales and promotion agent.

What is a package insert, anyway? What is it, indeed, but an opportunity to address a message directly to an actual user of your product? And don't forget that you fought to win that user. In some way you convinced that person that your product was the right product for the purpose. You must keep him or her sold on that idea, to offset the influence being brought to bear by your competitors with the same merchandising means you have employed. The package insert affords that opportunity.

An Economical Medium.—In a package insert you have threefold economy—economy in cost, economy in use, and the ultimate economy in distribution. Because of its size and the quantity to be used, the cost per unit is extremely low. In the matter of use—insertion in the package—that operation is not a costly one and, in many cases where the product is packed by automatic machinery, the insert can be designed to be inserted automatically. As regards distribution, the cost is nothing. The package insert rides in the product package and adds nothing to the cost of transportation on that package.

Positive delivery—no waste in circulation—is another important advantage to be considered. The insert is contained in the package and arrives with the package. It must be seen by a user of your product, as it must be removed—handled—before the product is used up.

Another vital advantage in the package insert is that it is not fighting competitive interests. There are no interesting news items, no absorbing stories, no competitive advertisements

present when the package insert makes its bid for attention. It arrives opportunely when the only interest is the accurate and proper use of your product, at a moment when the paramount desire is to attain a certain perfection of accomplishment—be it making a tempting cake, the alleviation of pain, the acquirement of alluring daintiness, or any one of a multitude of everyday acts.

Practical Suggestions for Various Uses.—The functions of the package insert are legion. Here are some of them, the first of which apply to the product and its uses:

1. Describing product ingredients; fostering consumer confidence.
2. Giving directions for the proper use of the product, by copy and illustration; building good will and insuring satisfaction and continued patronage.
3. Indicating other uses and recipes for the product, thus inciting greater use of the product.
4. Offering to answer queries relating to some specific subject, such as personal toilet, etc.
5. Inviting suggestions for improving product.
6. Inviting suggestions as to new and additional uses of product, sometimes offering a reward for the best suggestions.
7. Supplementing instructions on package by repeating in different languages.
8. Presenting scientific facts on subjects closely allied to the use of the product, such as proper health practices, etc.
9. Emphasizing special patented or unusual product features.
10. Presenting the product guaranty; fostering consumer confidence.

As a strictly advertising medium, the package insert is of great value for such purposes as the following:

1. Introducing a new product—to a satisfied customer.
2. Describing and illustrating other products, or the complete line.
3. Quoting testimonials and inviting testimonial expressions.
4. Announcing combination offers.
5. Securing the names of other prospects by providing a form to fill out: "Free samples for your friends."
6. Offering and explaining premiums, booklets, samples, etc.
7. Calling attention to, and describing, radio program.
8. Effecting an important tie-in with national advertising.
9. Describing policies, operations, and other features of the company behind the product; a real public-relations job can be done here.
10. Catering to child interest; some smart merchandisers present their package insert as an item that appeals to the universal trait of acquisition inherent in youngsters—the desire to collect and to trade.
11. Building consumer mailing lists through enclosure of return post card.

12. Building sales for tomorrow by including pictures, cutouts, small toys, etc., for children.
13. Selling service contracts on mechanical appliances.

Some Special Cases.—Persons with children are probably familiar with the unique sales builder used with Dixie ice-cream cups, which are distributed by a leading ice-cream company in most cities. The old Castoria slogan, "Children Cry for It," is true when applied to Dixie cups, which have pictures of movie and sports stars on the inside of the cover. When the child collects 16 of these pictures, by buying or swapping, he can go to a store and get a folder with slots like coin cards and an enlarged lithograph of his favorite star. When he has accumulated 12 sets of each he gets a loose-leaf portfolio in which to keep the collection.

We cite the Dixie case as a striking example, not only because it is an outstandingly successful promotion scheme, but because the "insert" itself is big-scale advertising at practically no cost. The "insert" is a part of the package itself.

The Knox Gelatine Co., Inc., has used package inserts since 1893. The current series offers a variety of recipes, lists several recipe books which users may have free, shows the housewife how to make the family like leftovers, gives "inside facts" as to why Knox is best, etc.

Church & Dwight a good many years ago devised an insert which will not die, nor can they kill it. After packing "Useful Birds of America" cards with their baking soda for some 30 years, they added a pouring feature which eliminated the possibility of enclosing the card within the package. Demand for the cards persisted to such an extent that they are now distributed in response to requests and coupons from advertisements.

Goudey Gum Company distributed more than 300,000,000 cards with Indian, baseball, and aviation pictures. At first one picture was given by the dealer for every two wrappers turned in by children, but later one picture was given out with each purchase.

Design of the Insert.—The mere fact that the insert will be read by a friend—by one who already is a customer—should not make an advertiser careless in his presentation. The maximum success will attend this merchandising effort only if your package insert, by its attractive layout, colorful design, and faithful pro-

duction of product and story, is convincing evidence that your product is the product that will give the best results.

In planning and designing a package insert the same elements should be incorporated that go into your other advertising material to provide stopping power, retention of interest, and convincing argument. Consider, if you will, how many inserts you have removed from packages containing products that enter into your everyday habits. How many have caught your attention, invited your interest, and influenced some degree of positive reaction? Immediately you will recognize the unfortunate sameness that prevails in most cases No atmosphere suggesting. "I'm new—I've got a new story for you to read."

In other words, there's no "change of pace." A pitcher uses change of pace to excellent advantage in our national game of baseball; an advertiser can use it just as effectively in the preparation of his package insert. As a matter of fact, he does it in all his other advertising. Who would think of using the same newspaper or magazine advertisement, the same poster design, the same direct-mail piece, month after month? Then why should the package insert continue in the same format, the same color treatment, month after month?

Use color, and use it freely--color "stops 'em" in all other forms of advertising, and it'll be just as effective in package inserts. Let a change of color be one means of attaining change of pace. Design your insert so that it will reflect the prestige and quality of your house and your product. Naturally, you re proud of your product—give some indication of that by the quality of design and reproduction. Inserts of inferior or indifferent appearance not only fail to convey the proper tone of fitness and prestige; they adversely affect the subconscious reactions of the recipient, leaving the way open for the persuasion of competitive advertising to undermine the product loyalty of your product user.

Consider your package insert as a real sales builder, a true merchandising piece, a vital form of advertising. Give it the same creative thought and attention that goes into building your other advertising, and then watch it "go to town." Redesign of packages has landed with both feet; redesign of package inserts is just as important, and long overdue.

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CHAPTER XVII

Sampling

Sampling Lies between Advertising and Selling.—The old saying, "Seeing is believing," can easily be paraphrased when it comes to selling almost any kind of merchandise. Testing is satisfying; feeling and handling are assuring; smelling is convincing. All these apply to sampling. Whether it is something to eat or something to wear, the appearance, the feel, and the taste can be presented by a sample in a more convincing way than any descriptive words will equal. From the very nature of merchandise, there are many things that cannot be sampled. Either it is impossible to offer a small portion, or the cost is prohibitive, or the article so deteriorates during the course of waiting for demonstration that it would no longer be a true sample.

No matter how convinced the Hoover Company might be that a sample of their cleaner placed in a home would be of vast benefit to them, they cannot afford to sample these relatively expensive appliances even to the largest users. Instead they must resort to the "free trial offer" which is the sampling substitute of the manufacturer who finds it impractical to give his product away. The demonstration ride of your automobile dealer is merely a modified form of sampling.

If the new Nylon hose could have been sampled, or the fabric examined, the marketing problem of the manufacturers of the yarn from which Nylon hose is made would have been much simplified.

True sampling finds its greatest value in low-priced consumption articles which are purchased frequently by the consumer Foods, drugs, cleansing preparations, cosmetics, and pharma-

ceutical preparations form the great field which responds to sampling. They are easy to transport in large quantities; they usually permit the creation of a miniature-sized package that will convey to the consumer the characteristics of the standard package, and do so at a low cost; they are in more or less constant use in most homes, so that the sample will be used soon after it has been received; goods so presented are easily available at retail stores so that purchase after trial is no problem; and most of the individual articles have some distinctive characteristics or qualities difficult to convey in the usual forms of advertising. All this demonstrates that sampling lies between advertising and selling and may be used with either or both. Certain types of sampling are closely related to premiums, which are discussed in another chapter.

Sampling a New Product.—In securing initial distribution of articles that qualify under the specifications mentioned, sampling plays an important part, which is illustrated by the brushless shaving cream. Not so many years ago it was wholly unknown in this country. The long-accepted shaving brush, with its accompanying soap in some form, presented no easy barrier to overcome. Barbasol was the first of the brushless shaving preparations to enter the field.

Had unlimited capital been available to carry on a widespread, forceful advertising campaign of education in this new and easier method of shaving, the initial efforts might have been exclusively along these lines. But, as in most infant industries, funds were relatively scarce, and it was decided to make sampling the major introductory force. During the first three or four years, markets were developed city by city.

Since Barbasol was relatively expensive compared to the long-accepted shaving soaps on the market, and because it was an entirely new technic in shaving, the most accessible market was among men who had sufficient income to be able to afford its purchase and were alert enough to new things to be interested in giving it a trial. This market was found, and is today, among the class *A* and *B* homes of the markets entered. Many methods of sampling were employed from time to time, each of which will be described later.

While Barbasol has since acquired national distribution and is now one of the large advertisers of the country, using radio, news-

papers, and magazines, it has never abandoned sampling. While it no longer depends upon sampling as the major force in securing new distribution, a fair proportion of the annual advertising appropriation is set aside each year for this important activity. In 1935, about 15 per cent of the total was devoted to sampling, although the percentage in the two years previous was considerably smaller.

Razor blades have been successfully sampled, although several samples have been sent out that were so defective that they discouraged any possibility of putting a blade on the market with the same name or even by the same manufacturer. It should be remembered that sampling works both ways. If the sample is not satisfactory and convincing, it will alienate the prospect so definitely that it is very difficult ever to win him back. This is true to a much greater extent than in offending by advertising. An offensive advertisement may be forgiven and forgotten provided the offense is not repeated, but a sample that is unsatisfactory will long remain in the mind of the user, particularly when its trial resulted in inconvenience.

New products, if too strikingly different from those which have been used, cannot be successfully sampled. For example, when Procter & Gamble brought out Crisco, they did not take any chances with sampling and trusting that the sample would be used. They relied on demonstrations, which were under the control of the manufacturer. It would seem that Barbasol is about the limit of what can be expected of sampling in the adoption of a new product. Gillette did not try to sample his razor, although that might have been possible.

New methods of buying as well as new products may be induced by sampling, such as buying shirts and other articles of clothing from fabric samples or swatches. These almost always get attention. They represent the fabric's texture and appearance, one of which is impossible to present through the regular advertising media and the other extremely difficult.

Sampling for Established Products.—The Barbasol campaign is an excellent example of the use of sampling to introduce a new product, but the idea should not be gained that sampling has its greatest use for this purpose. Many of the oldest manufacturers in the country, whose products are household words and who spend millions of dollars annually in other forms of advertising,

continue year after year to appropriate a definite percentage of their advertising budgets to this purpose. Procter and Gamble, the largest manufacturers of soaps in the country, and General Foods, the great holding company of the food industry, are consistent users of sampling of their many products. In such cases sampling is not used to open new markets but to bolster territories where sales are below expectations. When analysis of records seems to indicate a declining trend in sales, or market surveys disclose unusual gains on the part of a competitor, the districts in which this occurs are scheduled for a sampling campaign during the course of the year.

As well known as Beech-Nut bacon is, the manufacturer found that a sampling campaign, in which dealers cooperated by supplying lists of names of customers who might be good prospects, was a profitable venture. Instead of sending the sample packages to the grocers for them to hand out as they saw fit, the list of prospects was secured and to each a letter was sent stating:

> We wish to make doubly sure that you have actually tried it at your own table. Once you have done so we think you too will say, as thousands of others have said, "there really is no bacon quite so good as Beech-Nut."
>
> And so we have arranged for you to secure a family serving, simply by presenting the enclosed card to your dealer. We believe that, after all, taste itself is the best test. And this opportunity to try Beech-Nut Bacon is without cost to yourself, and without obligation to your dealer or to us.
>
> We are confident you'll find our bacon a savory and appetizing dish, whether served by itself, in combination with other foods, or as a garnish. It actually has a flavor that is quite distinctly Beech-Nut. This comes first from the special care used in selecting our bacon stocks, and also from our own special curing and smoking process.
>
> Thrifty housewives say there is less waste with Beech-Nut than with any other kind. It loses less in the broiling, its savory thin strips keep their size and shape, and it's all edible bacon—to the very last bit on the platter.
>
> We shall be pleased to have you use the enclosed card as we have indicated. Try Beech-Nut for yourself and see how good it really is.

Kellogg, Colgate-Palmolive-Peet, Borden, National Biscuit, and the Northwest Yeast Company are other well-known firms which lean heavily on sampling.

What Is Sampled Most?—The most active users of samples are in the breakfast-food or cereal field, where practically every manufacturer engages in sampling to a greater or less degree. The greatest user of samples in this field is Kellogg, who each year samples each important area with two, and sometimes as many as four, of his products. The products being most actively pushed are corn flakes, Rice Krispies, and bran.

Second in importance and size is Ralston-Purina, who introduced their new product—Shredded Ralston—via the sampling method. Other users who depend largely on sampling for sales increases are Wheatena, Maltex, and Post-O, the last a product of General Foods. In addition, there are: Force, Rippled Wheat, White House, Wheat-Ota, Post's Whole Bran, Heinz Rice Flakes, and Post Toasties, all of which have been liberally sampled over a period of many years. Most of the cereal manufacturers have sampled by the strictly hand-in method and in this work special uniforms are used and men are equipped with clean white gloves.

Third in importance are cough-drop manufacturers. Leading this group is Vick, who has been the largest sampler and for a number of years has used upward of 10 million annually. Next in line are F & F, and then follow Listerine, Smith Brothers, Hospital Brand, etc., all of which liberally and consistently use sampling.

The next classification is about evenly divided between shaving creams and the headache remedies. The largest user of samples, and perhaps one of the outstanding examples of how a business can grow as a result of sampling, is Burma-Shave, which relies entirely on sampling and road signs with doggerel copy for its introductory and sales-promotional efforts. Others that have used samples are Mennen's, Colgate, and Ingram, the last a product of Bristol-Myers.

Manufacturers of dentifrices have been liberal users of samples in the past, but, since the development of the 10-cent package and the sale in syndicate stores and drugstores of that small unit, have dropped away from sampling in favor of small-package retail sales.

In the headache-remedy field the most striking example of a business built on sampling is B.C. headache powders, which are now an outstanding factor in that field. The introductory efforts

of B.C. have been confined to a sampling campaign plus a coincidental sales drive in each city they enter. The salesman from district headquarters is sent out into a town or an area and makes one sale's coverage of all retail outlets and jobbers prior to the sample distribution. He stays in town during the time sampling is conducted, and then makes one additional coverage of the outlets in that area—the entire operation in the area taking not over 2 or 3 weeks' time. At the end of this period, distribution is placed in the hands of jobbers without any sales representation. The maximum manufacturing capacity of this company is in operation, and the company is usually from 2 to 4 weeks behind in production.

Among the cathartics that are continually sampling either by mail or by carriers are Ex-Lax and Cascarets, both of which, in their initial stages, were large users of house-to-house samples running into the tens of millions. In the antacid field are Tums and Jests, which have both used samples widely.

Size of the Sample.—How large should a sample be? This is a much-discussed question and one difficult to answer. The H. O. Company of Buffalo, manufacturers of breakfast foods, recently revived a cereal known as Force. It entered a field in which a competitor with a product almost identical, Wheaties, was well established. Naturally, sampling played an important part in the introduction, and the question of the size of the sample was under discussion. The manufacturer, with an eye toward costs, argued in favor of a small package that would contain one large individual portion of Force. The advertising agency felt that enough for a family serving should be given. Their argument was that, in serving the entire family at one time, discussion of the merits of the new product may be aroused, whereas the single portion may fail to arouse much interest. No rules can be laid down as to the proper size of a sample, but it must be given careful consideration, as an inadequate sample is of little value while too generous a distribution may arouse the ill feelings of local retailers.

Hills Brothers, manufacturers of a high-grade coffee, who in many years of carefully planned effort have not yet acquired national distribution, believe that the merits of their coffee can be appreciated only after several trials. It is thought that, after using almost any blend of coffee for a week, those who have

been using the same grade would accept the new blend. When Hills Brothers open a new market they distribute a full half pound of coffee to every *A* and *B* home in the area and at the same time carry on an intensive local advertising campaign. Such a campaign can be carried out only by well-financed companies, and it has been said that, in getting established in Chicago, this company invested almost a million dollars in one market. New York, originally scheduled for 1930, was held off because of current conditions and has not yet been intensively cultivated.

Sampling tea also seems to be extremely difficult. There are at least four distinctive tea flavors, and it is to be expected that people who use any one of these will continue. They may like India tea and be open to a trial of different brands only of that particular flavor. To induce one who has been accustomed to drink India tea to try China green or Japan tea would be too difficult to accomplish by sampling alone.

Hills Brothers' standard of at least one-half pound for a sample is generally accepted. In the case of tea, unless one-quarter to one-half pound can be offered for trial, a sampling is of no use. By most advertisers this is regarded as too expensive—especially for tea. It also takes too long in their opinion to get returns on the sampling investment. They have, therefore, disregarded sampling in favor of cash value coupons redeemable at neighboring stores.

An outstanding example of the effectiveness of this is the standing in eastern areas of Seeman Bros. White Rose tea. This organization has, for 10 consecutive years, distributed from $2\frac{1}{2}$ to $3\frac{1}{2}$ million coupons per year, varying in value from 8 to 10 cents each. In the metropolitan New York market Seeman Bros. White Rose outsells any other tea and is close to outselling its two nearest competitors combined.

Another user of coupons in the tea field is Lipton's, who nationally stands first as the volume seller. The firm has for some years distributed several million coupons each year, particularly in areas where their sales were not up to average or where they felt an additional push was needed in order to bring them up to par. Similarly, Tetley's tea has been an occasional user of this method, putting out as much as $1\frac{1}{2}$ million coupons for a single campaign.

With coffee the plan is the same. Beech-Nut and Chase and Sanborn have in the past 2 years distributed approximately $3\frac{1}{2}$ to 4 million coupons. These have ranged in price from 5 to 10 cents. It is definitely noted that the return from the 5-cent coupon is usually about 40 per cent of that on the 10-cent coupon.

Though no hand-in deliveries have been distributed for both tea and coffee coupons, the big majority of the coupons are distributed either on a straight delivery under the door or through the letter slot or by a secondary method of discretionary leave. By "discretionary leave" is meant all the motions of a hand-in delivery are made, but if no one is at home a circular is put under the door or through the letter slot.

Most coffee and tea advertisers have discarded the older method of distributing a circular or booklet with their coupon in favor of a strip coupon which combines both the advertising and the coupon; this is because of its economy in production and the fact that by laying it out in this way the eye is more forcefully directed to the coupon.

In general, if a product is for family use, particularly for a food, then the sample should be enough for the family. With pharmaceuticals, enough should be supplied to treat an ordinary attack, or perhaps two or three.

Demonstrating.—Where the seller keeps merchandise in his own possession and shows how best to use it or the various applications that may be made of it, he demonstrates. For example, when an enterprising young man polishes up a fender of your automobile hoping to sell you a package of polish, he makes a demonstration. This is to be contrasted with giving you a small package to take with you and try out in your own way or to discard it as you see fit.

The Carnation Milk Company, originators of the famous Contented Cow, some years ago felt that the sale of their main product, evaporated milk, could be greatly increased if more housewives could be persuaded to give it a thorough trial. Experience has indicated, however, that the usual sample, even a regular full-sized can, was not sufficient in quantity to create the interest desired. At least six cans seemed to be the minimum quantity that, placed in the housewives' hands, resulted in reorders.

To sample six full-sized cans of evaporated milk by the usual house-to-house method, while costly, was not an impossible promotional activity from an expense standpoint, but placing this amount of merchandise in a neighborhood would deprive local dealers of considerable revenue and create an unfriendly feeling toward the manufacturer. Moreover, the housewife required more than the physical delivery of the six cans of milk. She needed some very definite education on evaporated milk and its uses and advantages.

To meet these conditions, a group of intelligent young ladies, all of whom had been educated in domestic-science work, was employed to call on every home in selected areas. These women went into homes and wherever possible told the Carnation story in the most interesting manner possible. Since they were trained in domestic science they could discuss intelligently the problems of the housewife. Some of them would devote time enough actually to bake a cake if sufficient interest was shown. Before they left, they collected money for the delivery of six cans of Carnation milk, the order being turned over to the grocer with whom the housewife usually traded.

In this manner the story was told, the samples were placed in the house, and the dealer was pleased with his orders. Naturally, intensive work of this character cannot be done in all markets, but it was found sufficiently profitable to carry on in a number of large cities which should have been good markets but, for various reasons, were not.

The usual demonstration is frequently encountered in retail stores.[1] A trained demonstrator stations herself behind an attractively arranged table or counter and gives a lecture on her product, passing out samples to store customers whose curiosity has been aroused. Usually this form of sampling is reserved for products that are too expensive to sample in large quantities, or for those that require some particular demonstration.

The whole theory of cooking schools is to demonstrate products. Where the processes of use are a little too difficult for a consumer to discover for herself, a demonstration provides sufficient information to convince a woman that she can do the same thing. If she fails the first time, she probably will be willing to accept responsibility for failure and will try again; while if it

[1] A dealer demonstration for Drāno is described in Chap. XIX.

were merely a matter of making use of a sample and the result was unsatisfactory, there would be slight incentive to buy a supply for further trial.

The popular county fairs of the country were built up largely by the demonstrations staged as part of the attraction. Gang plows, potato diggers, hay loaders, and many other farm machines were introduced by demonstrations, at least part of which were at the county fairs. So popular and effective is this method that the Ford Motor Company used it in demonstrating their farm tractors at the World's Fair in New York.

Different Ways of Sampling.—One of the chief difficulties with sampling is the cost of distributing the sample. This particularly applies to new products which are being introduced. Usually the amount of money required to provide samples can be arranged without overspending. But if the sample has to be advertised or if there is a considerable charge for delivering it, both in addition to preparing the sample, the expense becomes unprofitably high. Occasionally sampling can be done without sustaining advertising, but not always. It may cost about as much to advertise and distribute a sample as the product. Ingenuity frequently invents new and different ways which are original and effective.

An example of this is an invention of Richard Webster for the Nassau bed blankets. He felt that, if he could get his products into women's hands so that they could actually feel the soft texture and the light weight of the material, selling would be much easier. To cut up new material into swatches large enough to show the pattern, and then secure lists and finally pay the postage charge, would make the expense too great. So instead of giving away swatches, a large number were made up for dolls' beds.

These were advertised as the same material as the well-publicized blankets and were sent postpaid for 25 cents. It was believed that each sample sent out would reach from three to four families, as children circulate about the neighborhood. In addition an attractive folder was sent with each doll's blanket, illustrating different colors and patterns of the large blankets.

Following are ten recognized plans for distributing samples:

1. Distributing samples direct to the consumer either by the house-to-house or the mail method.

2. Distributing and demonstrating samples in or through retail stores.

3. Using coupons in magazines, newspapers, or direct-mail advertising or distributing them house to house. Coupons are good for a sample or part payment at the dealer's store if turned in by the recipient.

4. Distributing samples, through crews, on street corners, crews usually being attired in some distinctive uniform.

5. Offering a sample of one product free or at a reduced price, if some other product of the manufacturer is purchased at the same time; the "you buy this; you get this free," idea.

6. Sampling in crowds, at ball games, schools and colleges, theaters, etc.

7. Distributing and demonstrating samples at food shows, fairs, exhibitions, and through churches and other organizations.

8. Getting together a number of samples in one box and offering them at an attractive price.

9. Selling miniature packages through limited-price stores.

10. Miscellaneous methods and schemes.

The more important of these will be given further consideration in the following paragraphs.

The Advertising-coupon Method.—Look through any magazine, particularly one in the women's field, and you will find dozens of advertisements with a coupon, usually in the lower right-hand corner, offering a sample of the product featured. Sometimes this is offered free, sometimes at a small price. Such samples must, of course, be mailed to the individual returning the coupon. The advantages of this method of distributing samples lie in the fact that the manufacturer believes he is placing his sample in the hands of someone who is actively interested.

If there is to be no remittance with the coupon the space used for the announcement is usually small. With a charge the space increases, according to the amount. About 50 cents has been the maximum that could be expected to bring any returns. One idea of making a charge for the booklet, sample, or whatever was sent was to avoid mailing out expensive material to triflers, such as school children, who sometimes stage contests to see who can get the most "free samples." This method of sampling was formerly much more successful than it is now, especially since the bids for answers on the radio have become so numerous and so insistent.

The cost of coupon returns from publications is too high to be practical, ranging from a few cents to dollars for each. In shipping, a carton or other container sufficiently strong to withstand the abuse of the mails is required; the postage is considerable.

Moreover, it fails to reach any large number of users. Sampling to be truly effective must be done in large volume, and the returns from coupons are negligible. As a matter of fact, the coupon return has come to be regarded more as a measure of the reader interest and effectiveness of the advertising than as a major means of distributing samples.

The Mailed Sample.—There are two fundamental objections to the general use of mailing as a means of distributing samples. First, a satisfactory mailing list must be secured, a problem that is always difficult and costly, and, second, the expense of packaging the product and paying the postage is great. Government mailing restrictions are severe and all general mailings must qualify under the postal regulations, which are especially restricted in the case of liquids. Fabric samples and other flexible materials that are adaptable to flat mailing in envelopes find this method their best, but few manufacturers of foods or drugs can afford the expense involved.

Recent postal regulations have been put into effect that permit the mail carriers to deliver a sample or a letter to every regular resident on his route without the formality of a name on the package. Local postmasters will provide the manufacturer with a list of their postal delivery routes, showing the number of homes on each, and samples or letters may be distributed to as many as may be desired by the payment of the necessary postage in bulk. This may be done either in cities or in places covered by the rural free delivery and is a real saving to the manufacturer in comparison to buying a mailing list and typing the required names and addresses on the packages or letters.

The House-to-house Sample.—By far the greatest majority of samples are delivered by crews working house to house in selected areas designated by the manufacturer as suitable for his purpose. Throughout the country there are organizations which make the distribution of samples their business, and there is hardly a section of the country not covered by some organization.

The major difficulty in house-to-house delivery has been the danger of dishonest representatives not covering the specified territory with the thoroughness agreed upon. Millions of samples have been dumped in out-of-the-way corners by lazy and poorly supervised distributors, but such conditions are disappearing as reputable businessmen have entered this field.

The leading firm in this work is the Advertising Distributors of America, which maintains a nation-wide organization which describes its services as follows:

Front-door Service.—Distributor places advertising matter high in the jamb of door, behind mailbox or between knob and jamb of door—all to be properly folded and fastened.

Ring, Wait and Leave Service.—Distributor rings doorbell and hands to adult, accompanied by a few remarks in favor of sample. Where no one answers doorbell, sample is left in safe place—in milk box, food box, or behind door.

Ring and Wait Service.—Distributor rings doorbell and hands to an adult, accompanied by a few remarks in favor of sample. Where no one answers bell, no sample is left, but instead an advertising folder or booklet is placed under door.

In estimating number of samples necessary on a strictly ring and wait service, the territory to be covered and season of year must be taken into consideration. For instance, in Ohio during the month of August an 85 per cent response may be counted upon, while in November the responses will be reduced to 70%.

The cost of a national service is estimated as follows

Cities and towns	(Approximately) 5,000
Number of homes covered	15,600,000
Additional coverage, including certain rural sections, brings the total coverage up to 20 million homes.	
Cost of coverage, ordinary weight matter, front-door service	$86,000
Cost of coverage with samples (3 ounces or less) ring, wait, and leave sample service	$161,535
Number of samples required on ring and wait service in above cities and towns	11,809,075
Cost of coverage ring and wait service	$199,352

The cost of ring, wait, and leave service and ring and wait service, is based on samples weighing three ounces or less each. Where samples are heavier than this, special prices will be quoted on application. Because of nonresponse, on ring and wait service, a lesser quantity is required than in the other types of service.

Also, the two great communication companies, Postal and Western Union Telegraph, have added sample distribution to their other functions and are prepared to do house-to-house or

TABLE 16.—COST OF NATIONAL SAMPLING AS GIVEN BY ADVERTISING DISTRIBUTORS OF AMERICA

State	Number of pieces required	Cost of front door service	Number of towns
Alabama	141 450	$ 637	26
Arizona	29 750	145	11
Arkansas	58 300	258	19
California	1 111 025	13 200	292
Colorado	108 800	1 420	16
Connecticut	360 355	1 989	133
Delaware	37 500	158	12
District of Columbia	100 000	400	1
Florida	158 200	831	35
Georgia	192 500	898	57
Idaho	21 750	139	17
Illinois	1 346 600	6 463	286
Indiana	450 025	2 229	183
Iowa	213 805	1 128	118
Kansas	193 700	1 065	165
Kentucky	161 600	786	51
Louisiana	151 000	644	11
Massachusetts	883 950	5 500	236
Maryland	184 150	812	26
Maine	111 525	698	93
Michigan	711 660	3 008	143
Minnesota	237 000	1 078	42
Mississippi	57 700	281	16
Missouri	486 950	2 281	122
Montana	22 750	103	5
Nebraska	99 400	438	29
Nevada	7 250	38	4
New Hampshire	98 075	672	160
New Jersey	829 343	4 710	343
New Mexico	21 575	143	17
New York	2 628 027	13 112	370
North Carolina	157 850	997	50
North Dakota	18 250	102	7
Ohio	1 023 475	4 692	372
Oklahoma	167 150	866	112
Oregon	122 375	638	49
Pennsylvania	1 168 575	5 381	343
Rhode Island	156 160	610	38
South Carolina	64 150	344	25
South Dakota	44 350	269	71
Tennessee	178 200	771	38
Texas	473 125	2 356	181
Utah	54 250	257	25
Virginia	139 250	611	23
Vermont	68 375	493	200
Washington	198 900	1 035	40
Wisconsin	296 850	1 292	102
West Virginia	72 450	313	22
Wyoming	15 500	96	10
TOTAL	15 634 956	$86 387	4 747

Ring Wait and Leave Service is approximately 2 2 times the cost of Front door Service Ring and Wait Service is approximately 2 5 times the Ring Wait and Leave Service but the number of samples is slightly over 70 % as many

office-to-office distribution of all kinds in every urban section of the country.

The Pass-out Sample.—Some manufacturers have products of such widespread use that practically every individual is a potential customer. In this group fall the candy and chewing-gum manufacturers. Here there is no need for selective sampling that will reach only a desired part of the market, for everyone is a prospect. Such manufacturers frequently station their sample distributors at busy spots which command a large traffic and pass out samples to all. Usually attractive young women in uniforms are employed at this work, as an added incentive to halt the traffic long enough to get a sample into the hands of the public. So few products are adaptable to this form of sampling that its use is not widespread.

Certain kinds of public events attract audiences that are good prospects for some manufacturers. Going back to Barbasol in its early days, it was found that the attendance at college football games brought together a perfect group for sampling purposes, and for several years samples were passed out at such events. Baseball games were frequently used by those desiring to reach a typically male audience. Such events offer an opportunity to pass out a considerable quantity of merchandise at low cost.

Beech-Nut Chewing Gum and Life Savers are among those who have used this method extensively. The former commonly employ girls who are smartly uniformed and stand at busy corners to pass out their offerings. Life Savers have a specially constructed wagon which resembles a huge package of Life Savers. This is driven to a place near a school, and when pupils are dismissed they congregate around the free dispensary.

Sometimes this type of sampling is varied by handing out coupons which can be redeemed at near-by stores. Coca-Cola has used this plan extensively. It is better adapted to college towns, where more highly specialized groups are met, than in cities, where the crowd is of a heterogeneous nature.

Samples at Woolworth's.—Selling small-sized packages through the 5-and-10-cent stores has come to be standard practice for such items as tooth paste and cosmetics. The reasons for this are by no means obscure. The variety stores, especially those operating on a restricted-price policy, will furnish their customers with these items within their price range. If manu-

facturers of standard products refuse to supply these goods packaged to satisfy the "five-and-ten" trade, buyers will go to a manufacturing chemist and have a similar article packed under the store's name. Usually this will be of a lower quality than the item for which it is substituted. If there were no other reasons for this, limited output would force a higher price or lower quality.

An association of druggists engaged the authors to prepare a brief to submit to some of the leading manufacturers of cosmetics who had refused to supply small packages for syndicate stores.

The druggists urged these manufacturers to put out the small-sized packages to act as samples. Druggists did not want to stock them, but urged that most women who started with a small size would soon see the economy of buying a standard package and come to them for it. If samples were not made available, they argued that thousands of women would continue to buy at the "five and ten." Anyone who has studied sales in stores of limited service must have observed that women select advertised merchandise in preference to the unknown. This is in accord with a law of psychology, according to which the known is preferred to the unknown. The comparative smaller size of the advertised brand may not be a serious disadvantage. It is assumed that the quality must be higher since the quantity is less.

It is related that the Woolworth buyers had much difficulty in persuading one of the leading toothpaste manufacturers to sell them a size that could be retailed for 10 cents. The objection was that the small size was uneconomical and might discourage buying when it was realized how frequently the tube must be repurchased. Also the manufacturer made no money at all on samples sold for 10 cents and if any considerable part of the output were to be sold at that price, the firm's profits might be curtailed.

The buyer pointed out that sampling was a necessary part of the sales promotion; that in selling samples through publication advertising, the manufacturer was spending more money for the advertising than he received for his sample and in addition gave away the tube. If sold to Woolworth, there would be a clear profit on each sale, the tube bought for 10 cents would also be

treated as a sample; and finally if the number of small tubes distributed were greatly increased, manufacturing costs would be lowered. That logic prevailed and an immense amount of toothpaste is now sold in tubes that retail for a dime.

Miscellaneous Methods.—Ingenious and unusual methods of sampling have already been mentioned. Also, a number of specialty methods have come into existence in the past few years, some of which seem to have advantages worthy of attention. One instance is the distribution of samples through theaters. Several organizations tried to operate through neighborhood moving picture theaters in large cities and through all theaters in small cities. The general plan was to distribute a package containing the samples of eight to ten different manufacturers to every woman in the audience on certain days or nights advertised in advance in the theater.

These samples were an attractive value to the women receiving them and the theater benefited through increased patronage at the time of the distribution. Usually the manufacturers participating were permitted a brief advertising statement on the theater screen in addition to space for lobby displays, etc. By grouping the products of a number of manufacturers into one combination the cost of delivery was lowered, and it was possible to get a good representative coverage of the smaller markets in this manner at a cost lower than through any of the usual house-to-house channels. With the elimination of advertising from the curtain, the plan lost some of its attraction. It did not seem to succeed as well as hoped for.

Chain stores sometimes make use of combinations of manufacturers' samples to make up an attractive gift package to their customers. Walgreen's drugstores, once or twice a year, give away to every customer spending the required amount of money for regular merchandise—usually $1—a gift bag containing as many as 20 different kinds of merchandise. These also contain regular merchandise that may represent an overstock or discontinued items, and a few have special-price items of real value. Thus the stores are able to advertise the value of these gift packages as having contents worth up to $10. Such offers result in increased store sales and offer any manufacturer interested a chance to get his samples distributed to the regular store customers. But this also has passed the crest of popularity.

At least one organization now operating in the country makes a practice of collecting the samples of ten to a dozen manufacturers, placing them in an attractive carton, and selling the contents to the housewife for a small sum. The manufacturer in such cases pays no distribution cost and merely delivers his samples to the agent who is making up the package. While this is attractive from the cost standpoint, the limitation lies in the restricted distribution resulting.

Sampling through dealers has already been referred to in connection with Beech-Nut bacon. In that case dealers supplied lists of names to whom letters were sent. Each recipient could receive a generous sample of bacon by presenting the letter to his dealer. If the sample is of some value, this method is better than sending the merchandise direct to the dealer for him to distribute indiscriminately. However, the present vogue for coupons, whether mailed or delivered by messenger, seems preferable. The coupon tends to get the recipient into the store where it is redeemed, and dealers like that. Further, it helps to make a sale, rather than merely passing out a small present.

Giving away an article with the sale of a related product has many advantages. A bottle of after-shave lotion was given with a tube of Williams shaving cream to get it introduced. More recently the Schick razor has been sold at a heavy discount with a tube of shaving cream, another happy combination

For sheer ingenuity a job of sampling which J. Tillou Sattels did for Dubble Bubble gum has few equals. First he made an exhibit of the raw materials for gum at a dentists' convention. This was cordially received. Then he sent a box of Dubble Bubble gum to each dentist over a large territory by a Western Union messenger The ostensible purpose was for the dentist to have a little present for each of his juvenile patients, who need every encouragement to visit a dentist The effect on mothers was that the dentist *seemed* to be recommending Dubble Bubble gum.

Summary of Sampling Activities.—Coupon campaigns are now usually made a focal point or fulcrum for a sales campaign which precedes, parallels, and follows coupon distribution. During the first call, the merchants are all stocked with maximum quantities

in anticipation of the coupon redemption. During the coupon distribution, a second call is made, at which time any merchants who were hesitant or who procrastinated are stocked. The third call is made for the purpose of redeeming coupons by paying the merchants or appearing to pay them in cash, yet actually restocking them with merchandise in larger amounts than the value of the coupons redeemed.

Sampling campaigns as a general rule should not be conducted more frequently than 18 months apart in any area. However, in the cereal field this does not apply, because cereals divide themselves into two broad classifications, cooked and uncooked. Cooked cereals have their greatest appeal in cold-weather months; uncooked cereals, though sold the year round, have their greatest sales in the summer months, when people lean more to nonheat producing cereals. Cereals can be sampled as often as once a year, taking advantage of the seasons when the greatest sale of the particular type of cereal is possible.

The volume chain stores are heavy users of house-to-house distribution. Among them are Sears Roebuck, who prepare weekly broadsides ranging in size from four-page tabloids to 12-page standard newspapers, which are distributed to blanket entire shopping areas around each store. Being neighborhood stores, it is impossible for them to take advantage to any great extent of newspaper advertising and accordingly they have for many years spent the major part of their advertising appropriation in circulars. Other users of circulars in the chain-store field are Liggett's, who distribute each year between 18 and 20 million, United-Whelan, who distribute 10 to 12 million, and A & P, who distribute more than 20 million.

In the candy field, Peter Paul, Inc., is one of the largest users, with a distribution recently of approximately a half-million coupons on which a redemption of 8 per cent plus was reported. This was an unsupported effort, no other advertising being used, except subway cards, which is part of their deal with the Collier organization, who control the newsstand sale of low-priced candies in the subways and elevated stations.

The Coca-Cola Company is currently using a coupon which gives the recipient six bottles free by paying a deposit on the bottles only. A tremendous redemption is recorded, running 90 per cent or better. The coupon distributions have been

affected by professional organizations and this year alone their distributions have run to some 4 or 6 million coupons.

Newspapers have found house-to-house distribution a vital and productive method of creating circulation, particularly in sections where their circulation is not up to par with other publications. The most satisfactory method developed to date in this particular classification has been to deliver the publication every day of the week (before eight in the morning if a morning newspaper, or in the early afternoon if an evening newspaper) to the same homes for a full week. In the case of morning newspapers which want commuter circulation, distributions have been made at railway stations starting at seven-thirty in the morning and carrying on until nine o'clock, so that every commuter who came to the station platform received a copy. In most cases the newsstand dealer has been paid a flat sum by the publisher to compensate for the losses he has sustained in the potential sales of the paper to his regular buyers. There are examples of circulation development through this method that run as high as 500 per cent sustained increase for a period of 6 months following such distribution.

In the magazine field the best method developed to date has been to distribute reprints of the first installment of a serial about to start in the publication. This has been found more effective at lower cost than the delivery of full-size magazines.

Department stores are heavy users of house-to-house distribution of newspaper-type circulars, in which a large number of individual offerings are made to the public. In New York alone there were distributed during the past year for various department stores in excess of 50 million circulars. The same practice exists throughout the country. In Philadelphia the big department-store users of house-to-house distribution are Snellenburg, Strawbridge & Clothier, Frank & Seder; in Chicago, the Fair, Marshall-Field, etc.; in Cleveland, the May Store and Higbee; the Emporium in San Francisco; and stores in other cities are equally active in this kind of sales promotion.

It is a particularly advantageous form of advertising for department stores in carrying out full sales-week advertising and is generally cheaper than newspaper space, owing to the fact that it is possible to use more linage than is possible with the local rates of the newspapers.

NOTE: This summary of sampling activities was given the authors by George P. Johansen, secretary-treasurer of the Advertising Distributors of America.

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CHAPTER XVIII

Forecasting and Budgeting

The Forecast—A Necessity.—A sales forecast is a carefully made estimate of the business a firm expects to transact for a future period. This period is seldom for more than a year and frequently is for 6 months. A few firms restrict their forecasts to 3 months. A forecast for a longer period than a year is seldom adopted as a working plan but is held as a hope or possibility. It corresponds to some of the long-distance economic planning by governments, which is so seldom realized.

Some kind of forecast is absolutely essential if a business is to progress with any semblance of system. Even where no formal forecast is made, the management has some goal, more or less definitely fixed. It may be only a belief that it can do a little better than the previous year or cannot hope to do quite so well.

Without some definite estimate there would be no way to determine the needs of capital, of materials, of labor, of storage space, or of the other factors which enter into production. In practical application making a sales forecast is an effort to correlate factory production with what the salesforce can be expected to dispose of in the normal market. In factory-made goods, the ability to produce is much more accurately appraised than the ability to sell. Where the supply is a current crop, as of oranges and lemons, then forecasting is equally difficult for production and sales. The same thing is largely true of the large meat-packing houses. It is a matter of estimating not merely the amount of livestock that will come onto the market but also the condition of that stock when it arrives.

A bumper corn crop may mean a later market for hogs, cattle, and sheep, which are fed longer. They will probably be in better condition if the supply of stock food has been plentiful and cheap. On the other hand, a drought, injuring pasture, or an early frost, which curtails the supply of corn, may greatly affect the weight of livestock received, which means a smaller tonnage and a possibility that the quality may be poorer. So, with many kinds of business, forecasting becomes much involved because of the large number of complex factors entering into and influencing the result.

Retail Stores Forecasting.—For a food store supplying a fixed population, the forecast is wholly fixed on the past years' sales. The food industry is little affected by business conditions. The purchase of a new automobile may be postponed, the vacation trip abandoned, the old hat cleaned and reblocked to make it go another season, the shoes resoled instead of discarded, all because the income is reduced. But to substitute a poorer coffee for the sake of economy, or to eliminate bacon because it is expensive, or to go without butter will be resisted until actual necessity compels. Of course such distress happens to but few families in America.

The grocer knows the habits of his customers and so he will buy about the same number of units and pounds of food to provide each family as in previous years. If the business recession is severe, food prices will be reduced, so that his dollar sales will be less and, since his margin is figured in a general way upon a fixed percentage of sales, his profits will probably be less.

The jeweler, the shoe-store manager, the milliner, and the clothier cannot follow the same simple plan. Even though all prices decline, they know that most of their customers will buy on a relatively lower price level. Economy is contagious. It gets in the air. Even the well-to-do start economizing, and this speeds and spreads and prolongs the depression as well as making it more acute. The man who normally buys a $10 hat will just because he may feel poor spend only $5 or $7.50 for a new hat —if he does not decide to wear the old one another season.

One of the first effects of this is to make the merchant more careful in his buying. Things are uncertain. He does not know how far the economy wave may go. Anyway prices are declining, so he buys in reduced quantities. That slows down the

factories. Orders may be numerous, but they are small, so the manufacturer foregoes any extensions and starts to lay off all employees who can possibly be spared. That makes the depression still more acute. Furthermore, the merchants whose businesses are cut down by the economy wave first dispose of all surplus stock, then begin to limit purchases to a few weeks' expectancy, rather than for the season, which would be normal. They estimate sales by the drop of the present month over the same month a year ago. All but the most farseeing make the comparison in dollars, even though prices are lower. This exaggerates the loss of business, and, as they will anticipate future sales to decline at least in the same proportions as in the past, they will plan for an equal or larger drop in the future. This tends to limit assortments and varieties, so that it further depresses sales.

Curtailment and hand-to-mouth buying are abandoned when sales begin to pick up and prices rise. Buying for surplus stock will be resumed, which tends to exaggerate the degree of recovery.

The Factory Plan.—A few manufacturers who produce food supplies and other staples may be able to forecast sales in about the same way that grocers plan for future sales. As they operate over larger territories, their problem is never so simple. Population is ever shifting. Some towns and districts grow, while others decline. This is important to every manufacturer. He must carefully estimate changes in the size of the population he serves. If he is wise, he will not wait for census figures. The establishment of a new landing field or the extension of a factory may bring in added population of interest to the local store. But the building of a Grand Coulee dam and power plant brings many new stores which the alert manufacturer should not ignore. The failure of an Australian wheat crop will be of intense interest to the American automobile manufacturer with agencies scattered over the wheat-growing states of the United States. Higher prices for wheat means the sale of more new automobiles. An exceptionally good year for livestock in the Argentine Republic may mean that the grazing regions of our country will receive low prices for cattle and sheep. This also is of interest to automobile manufacturers in Detroit.

Similar illustrations could be indefinitely multiplied. Perhaps these sufficiently suggest the great number of conditions which influence the sales of a manufacturer who distributes over a wide

area. How far can he go in forecasting sales and how does he go about it?

The first thing to do is to establish some definite relationship between the particular industry one is engaged in and business in general; that is, if business is off 10 per cent from the 1921-1926 level, what effect will it have upon the industry under consideration? Usually a little study will reveal whether a particular business is accurately represented by recognized barometers of commerce and industry, or whether it precedes or follows a general letdown.

Then there are businesses—a few—which tend to run counter to the general current. Shoe- and furniture-repair-shops are examples. Sewing machines usually sell well in slack times. As women lose their jobs they do more work in the home. This means larger sales of unprepared foods and a greater sale of glass jars and other containers for preserving fruits and vegetables. More home sewing means increased sales of piece goods at the expense of ready-to-wear garments.

A heavy curtailment in the sale of umbrellas, gloves, jewelry, and evening wear is felt as soon as the business tide begins to ebb. Magazine and newspaper advertising and the number of telephones in use follow closely business conditions in general. The attendance at movies and other inexpensive amusements is not influenced by booms or depressions except in long periods of extreme unemployment.

The careful student, who plots his own sales curve along with one showing general business activity, arrives at a fairly definite idea as to how the ups and downs of his enterprise compare with a composite of trade activity and has a good base to build upon. Perhaps instead of using the general business curve, it will be possible to find another like that of chain-store sales, of stock-exchange activities, of carloadings, or of building permits which will more accurately follow one's own sales curve than the more comprehensive curves. This is on the idea of market indexes, which have been considered. Some of the wealth of statistics now available will surely furnish a parallel which will be highly indicative, if not perfect, for a model. Once such a curve is projected, its trend will be highly significant.

In the few paragraphs that can be applied to the subject here, it is too much to expect that the authors can develop amateur

forecasters; but, by suggesting methods and indicating sources of data, it may be possible to initiate a course of study which in time will provide skill in forecasting the future course of a business.

Professional Forecasters.—No one can see even 24 hours ahead. The Bible puts it, "No man can say what a day will bring forth." Nature is so full of unexpected calamities and blessings that it is futile to prophesy. But forecasters do not pose as prophets. After long and careful study they have discovered that there is a fixed sequence of events which normally follow each other. If not influenced by wars, by widespread calamities, or by revolutionary but unpredictable inventions, that sequence will follow. For example, falling commodity prices, reduced speculating activity (transactions of stock exchanges), high rates on commercial paper, and decreased bank reserves have marked an advanced stage of business depressions. It is such things as these that are studied by business forecasters.

The professional forecaster, by perfectly normal and understandable methods, is able to detect and point out trends and tendencies that are unnoticed by the average reader. Anyone can gather and segregate information used by forecasters. Few will take the time or pains to do it, and, of those who do, a few farsighted individuals can see significance in data that is not apparent to others. They become the outstanding forecasters like Col. Leonard P. Ayers, Dr. Lewis H. Haney, and Roger W. Babson. The predictions of such men as these, if skillfully applied to an individual business, will probably increase the accuracy of predictions over those made less scientifically. There will still be mistakes and wrong conclusions, but the average will be improved.

Factors to Work With.—Having discovered some standard of relationship between the enterprise in question and established economic data, the sales curve is corrected to conform with the chosen norm. If the sales record has shown a consistent gain, what are known factors that might influence that rate, either to accelerate or to retard it? Is the sales territory to be extended? Will there be more or less advertising? Has the salesforce tended to improve, or has there been any striking change, like losing some of the best salesmen? Have new items been added to the line which will bring added volume and possibly sell more of the original products?

A spice mill refused for a number of years to include paprika in its selection, because it was so difficult to preserve without deterioration. Finally on the repeated requests of its salesmen paprika was added. Almost immediately the whole spice line showed a marked increase. The explanation was that dealers required paprika. They would not give another supplier an order for that one item, but included other spices for which they had need. When the line was finally completed, these vagrant orders went to the original spice house.

Another factor that may influence volume is packages. Is there to be any improvement of products to meet or lead competition, including packages?

Before the end of the third year of advertising a firm should be able to establish a pretty definite relationship between the amount of money spent for advertising and the resulting sales. Each $100 added to the publicity budget should bring from $1,000 to $5,000 of added sales. There is no standard to go by in fixing the per cent of sales to advertising. Each firm finds it necessary to experiment until it finds the most profitable amount.

Using available factors with a market index which has been constructed to fit the particular business and which will give an accurate comparison of the different trading areas, a fairly accurate estimate of sales can be made.

District managers each reporting for his own territory should be able to predict the comparative sales of their districts for the next year as compared with the past. So also salesmen can report on their territories. If salesmen give separate reports for each customer, estimating by what per cent there is likely to be a change, up or down, in what the different ones will buy, it will probably be as accurate, when summarized, as such estimates can be made. Where a striking change is indicated an explanation should be given. Such an estimate is good for a comparison with the more comprehensive one made in the office.

The Sales Budget.—So far as salesmen are concerned, making a sales budget should offer no serious difficulties, except in the very great expansion or the reorganization of a business. The remuneration and traveling expenses will be known. If new territories are to be opened up, the careful use of a market index will reduce the speculative element to a narrow margin. For this part of sales expense the budget is easily made. It is in the

advertising program that grave difficulties will be encountered. What are the best media? How intensively should they be used? How can they be best coordinated with the other selling efforts? These are some of the important questions that must be settled before the actual construction of a budget can be undertaken.

"We advertise where we have business" was the positive assertion of a successful manufacturer who was very sure of himself. He did. In Utah he had all the business that one firm could hope to get, so he was spending more for advertising in that small state than in Washington, which had more than three times the potential, but only about one-half the business. To go to the other extreme and advertise where one has no business to the neglect of the business one already has would be equally foolish. The ideal is to put the sales effort where there are the greatest possibilities of sales, always remembering that it is first and most important to take care of the business one already has.

The Advertising Budget.—There are at least eight ways commonly used to establish an advertising appropriation. Each of these will be discussed separately. As to how much should be appropriated, there is little that can be said that would be helpful. One of the authors had occasion a few years ago to interview nearly all the leading advertisers of the country to discuss the economic effects of their advertising. The amount of the appropriation compared to sales was one point covered in the interview. While nearly all stated the relationship in percentage form, there was little basis for comparison. One included sampling in the advertising, others did not. The cost of maintaining the advertising department was sometimes included, sometimes omitted. Some charged association fees to advertising. Even in the same industry there was a wide variation in appropriations. One oil company spent over 3 per cent of sales for advertising. This company regarded that their salesmen's best work was in supplementing the influence of their advertising. A competitor appropriated only 1 per cent of sales to advertising. The latter depended almost wholly on its salesforce to bring in business. Its consumer advertising was primarily for the "effect on dealers."

It seems that each firm, by trial campaigns, by carefully checking the known results, and by the nature of its own business, must determine how much and in what ways its money for advertising can be spent most profitably.

While sales potentials, accurately computed, indicate where promotion may be most productive, there is no such indicator to point to the exact time when advertising should be done. With seasonal goods the campaign has some guideposts. The wise ones usually start early. Staples respond to constant and continuous stimulation, but to what extent, if any, efforts may be relaxed in the summer months and other off seasons is a matter for each advertiser to settle for himself.

The Appropriation as a Percentage of Sales.—When a firm has but one product, or one principal product, and there is a fairly fixed relationship in sales from year to year, a percentage of past year's sales appropriated to advertising works very satisfactorily. It gives a definite amount which can be translated into a complete campaign. There is little danger of overspending. If records are comprehensive, the sales of any territory can be compared with the advertising done there. If sales fall below what they should be, an added effort can be made or the advertising curtailed as the market index for that trading area indicates.

An obvious weakness in the method is that this year's advertising is always based on last year's business. In times when there is little change in conditions that may not matter. But suppose that last year was the end of a depression which showed restricted sales. Should improved conditions and excellent prospects be handicapped by a previous poor season? Where there is a family of products, especially if there are many members of the family, the method is not so satisfactory. It is extremely difficult to do effective institutional advertising over a long period. This is particularly true where the products are not closely related, unless each product is advertised according to its sales. Ivory soap (including Ivory flakes), Camay, P & G laundry soap, and Crisco all have separate budgets. But Heinz with over 100 products can scarcely follow the same plan. Even their famous "57 varieties" are out of date.

A common practice is to select a leader and let that carry the burden of the campaign. In such a case should the appropriation be made on combined sales or charged against the item which was specifically named?

Other situations are encountered. Sometimes the advertising of the item, as in the first campaign for Morton's table salt and Blue Jay corn plaster, has a dual purpose. The idea in each of these campaigns was, and to an extent still is, to sell unadvertised

goods as well as the items mentioned. The chief business of the Morton Salt Company, when they started advertising, was in barreled salt. Their product was practically the same as that of competitors. Advertising a package salt encouraged dealers to buy both bulk and package from the same source.

Bauer and Black started advertising Blue Jay corn plasters in the hope that all druggists would have sufficient sale of this item to keep it in stock. But the firm's principal product was surgical dressings. This line of products is not sufficiently distinctive to make it advertisable. However, as long as a druggist is going to order Blue Jay, he will probably buy surgical dressings at the same time and from the same source. This complicates estimating or fixing an advertising appropriation as a percentage of sales. Just how much is it worth to have the impetus of the advertised product in helping the sale of unbranded merchandise? Until that question is answered, the value of the advertising or the size of the appropriation cannot be logically fixed.

Of course these are unusual cases. But advertising is so far-reaching and often so indirect in its effects that it is necessary to point out the numerous exceptions when discussing ways and means.

Tax on Units of Product.—This is another method of making an advertising appropriation which has much to recommend it. It has been successfully used for many years by the California Fruit Growers' Exchange to advertise the Sunkist brand of citrus fruits. It is definite and will not involve the advertiser too deeply. When the citrus crop is light and needs little advertising support, the amount raised is automatically limited. When the crop is heavy, a larger amount is automatically put at the disposal of the advertising department. It is a common practice for the automobile companies to fix a specified amount on each car for dealers to invest in advertising. As that is a local and auxiliary campaign, it also works well.

Unless the advertising manager has a very definite idea how many units will sell, he will not know until too late how extensive a campaign his funds will provide. It works with Sunkist fruits because of long experience and because there is a safe minimum to anticipate. The basic campaign is planned on the assured returns. Then, as the crop exceeds the estimate, the campaign is extended, both by increasing the basic media, where that can

be done advantageously, and by adding supplementary media. This does not always result in an ideal campaign, but on the whole it seems to work satisfactorily.

Where the total sales have to be estimated, this method is much like fixing the appropriation as a percentage of expected sales. The advantages and disadvantages are the same. An accurate forecast provides a satisfactory base, but an error, either over or under, will throw the campaign off, and it will not be discovered until too late to correct mistakes. In either case, the quicker sales results can be secured, the more efficient will this method be of early fixing the appropriation.

Either of the above is to be preferred to what has sometimes been called the "bankers' method," which allots a part of the profits to serve as an appropriation. The most that can be said in favor of this method is that it is safe. There is no danger of overspending. Naturally by this method the amount for advertising is fixed by the previous year's business, and conditions may have changed so radically that a wholly different strategy should be adopted. It means no profit last year, no advertising this year.

Task and Program with Variations.—There are many other methods of fixing advertising appropriations, a few of which will be described. Perhaps the best of these—and possibly the best of all—is to plan an objective and then devise a campaign to achieve the end sought. This requires a very accurate knowledge of what can be achieved by a given expenditure. It is obvious that the undertaking must lie within the capabilities of the advertiser, and much experience is required to know just how extensive a campaign must be to produce a desired result.

When Lynn Sumner was in charge of the advertising of the International Correspondence Schools, there was one course sold wholly by mail. With tested copy, it was established that for every 1,000 circulation, 100 replies came in. One in 10 of those inquiring bought As the course became established, it was a simple matter to extend the advertising so that any desired increase in sales could be secured. Seldom will results be so sure and the task put on advertising be so definite.

To put in a lump sum as "business insurance" has been used by some of the leading firms of the country, including Swift and Company and the United States Rubber Company. One of the

chief weaknesses of this method is that once a sum is fixed it is likely to run on and on in spite of varying conditions. Another weakness is that it tends to center the interest in spending the allotment rather than in working out a program that will make the most sales. Since the depression hit the country this kind of appropriation has been discontinued with all but a few companies.

Matching or beating competitors is often the goal of an advertiser in making an advertising appropriation. He will take dominating space, get a more expensive radio program, buy more circulation, or otherwise tower above competitors. Where the other media run about equal, a few electrical spectaculars are sometimes added to give the crowning effect of leadership. Just how valuable it may be to a firm to be first in its field, the authors have never discovered. They believe that it is quite as much a matter of vanity as of good business.

To put up so much for each dealer may be a satisfactory arrangement, provided this amount is fixed in relation to sales or sales possibilities. It is better adapted to cooperative advertising than to national campaigns.

Finally we have to consider the method that so many advertisers have followed early in their careers. The first sale of 3-in-1 oil was made by Mr. Spee, founder of the company that made it, to John Wanamaker, who personally made the purchase. The goods were delivered on a wheelbarrow by the seller, and the whole proceeds, all of the $12.75, immediately invested in advertising. For many years, every surplus was similarly employed. Mum was given a little more propitious start, as Charles Evans, the manufacturer, was able to put $1,000 into his first national campaign. Many others have followed that plan to success. Probably it might yet be used profitably by many others whose sales still respond to increased advertising pressure.

What the Advertising Appropriation Covers.—To secure an agreement on what is or is not advertising is obviously so difficult as to be impractical. However, *Printers' Ink* has made up three lists of items which are sometimes charged to the advertising account. The "white" list is approved as being made up of legitimate charges. The "gray" list may or may not be included, according to conditions and the way in which the various items are used. The "black" list is not recommended as being fair charges against the advertising appropriation.

White List

Space

Paid advertising in all recognized media, including:

Newspapers
Periodicals
Business papers
Technical journals
Farm papers
Class journals
Religious papers
Car cards
Posters
Theater programs
Outdoor advertising
Window displays
Counter displays
Store signs
Novelties
Booklets
Directories
Direct advertising
Cartons and labels
(when used exclusively for advertising purposes, such as in window displays)
Catalogues
Package inserts
(when used as advertising and not just as direction sheets)
House magazines to dealers or consumers
Motion pictures (including talking pictures) when used for advertising
Slides
Export advertising
Dealer helps
Reprints of advertisements used in mail or for display
All other printed and lithographed material used directly for advertising purposes

Administration

Salaries of advertising department executives and employees
Office supplies and fixtures used solely by advertising department
Commissions and fees to advertising agencies, special writers, or advisers
Expenses incurred by salesmen when on work for advertising department
Traveling expenses of department employees engaged in departmental business
(Note: In some companies these go into special "Administration" account)

Mechanical

Artwork
Typography
Engraving
Mats
Electros
Photographs, etc.

Miscellaneous

Transportation of advertising material (to include postage and other carrying charges)
Fees to window display installation services
Other miscellaneous expenses connected with items on the White List

Gray List

Borderline charges, sometimes belonging in the advertising account and sometimes in other accounts:

- Samples
- Demonstrations
- Fairs
- Canvassing
- Rent
- Light
- Advertising automobiles
- Premiums
- Membership in associations or other organizations devoted to advertising
- Testing bureaus
- Advertising portfolios for salesmen
- Heat
- Depreciation of equipment used by advertising department
- Telephone and other overhead expenses, apportioned to advertising department
- House magazines going to salesmen
- Contributions to special advertising funds of trade associations
- Display signs on the factory or office building
- Salesmen's catalogues
- Research and market investigations
- Advertising allowances to trade for cooperative effort

Black List

Charges that do not belong in the advertising account:

- Free goods
- Picnic and bazaar programs
- Charitable, religious, and fraternal donations
- Other expenses for "good-will" purposes
- Cartons
- Labels
- Instruction sheets
- Packages
- Press agentry
- Stationery used outside advertising department
- Price lists
- Salesmen's calling cards
- Motion pictures for sales use only
- House magazines going to factory employees
- Bonuses to trade
- Special rebates
- Membership in trade associations
- Entertaining customers or prospects
- Annual reports
- Showrooms
- Demonstration stores
- Sales-convention expenses
- Salesmen's samples (including photographs used in lieu of samples)
- Welfare activities among employees
- Such recreational activities as baseball teams, etc.
- Sales expenses at conventions
- Cost of salesmen's automobiles
- "Special editions" which approach advertisers on "good-will" basis

Combining Methods Like General Motors.—The following forms have been adopted from blanks used by the General Motors

Corporation. They are the most comprehensive and detailed that the authors have found. As will be seen, the appropriation is planned for a year, but to conserve space only the forms for the first 6 months are given. It will be observed that the General Motors plan is a combination of the task program, the unit tax, and a check against previous percentages.

DETERMINING THE APPROPRIATION

1. Request

	1940	1939	Increase	Decrease
a. Amount requested	$____	$____	____%	____%
b. Domestic deliveries in dollars	____	____	____	____
c. Domestic deliveries in units	____	____	____	____

2. Ratios

	1940	1939	Increase	Decrease
a. Advertising expense in dollars per unit	$____	$____	____%	____%

	As a Per Cent of Sales				*f.* As a Per Cent of Grand Total (Factory Sales Expense)	
	1940	1939	Increase	Decrease	1940	1939
b. Factory advertising expense	____%	____%	____%	____%	____%	____%
c. Factory sales-promotion expense	____	____	____	____	____	____
d. All other factory sales expense	____	____	____	____	____	____
e. *Grand total* (factory sales expense)	____	____	____	____	100%	100%

3. Analysis of the Requested Advertising Appropriation and All Other Sums to Be Expended in Advertising

Expenditures covered by *division's appropriation request:*	1940	Percentage of Expected Sales	1939	Percentage of Expected Sales	Increase	Decrease
a. Division	$____	____%	$____	____%	____%	____%
b. Advertising pool	____	____	____	____	____	____

Expenditures *not* covered by division's appropriation request	1940	Percentage of Expected Sales	1939	Percentage of Expected Sales	Increase	Decrease
c Division branches or retail stores	$____	___%	$____	___%	___%	___%
d Dealers, contributions	___	___	___	___	___	
e Distributors' and dealers' own advertising (approximate)	___	___	___	___		
f *Grand total*	___	___	___			
g Total advertising effort from all sources in dollars per unit					$___ (1940)	

4 How Division's Advertising Appropriation Will Be Spent

	1940				1939			
PRIMARY MEDIA								
a General magazines	$___	___%			$___	___%		
b Women's magazines	___	___			___	___		
c Other magazines reaching selected audiences	___	___			___	___		
d National, state, or sectional farm papers	___	___			___	___		
e Trade papers	___							
f Preparatory work	___				___			
g *Magazines subtotal*			$___	___%			$___	___%
h English-language newspapers	$___	___%			$___	___%		
i Foreign-language newspapers	___	___			___	___		
j Preparatory work	___				___			
k Publicity costs								
l *Newspapers subtotal*			$___	___%			$___	___%
m Posters and painted bulletins, highway bulletins, and road signs	$___	___%			$___	___%		

		1940		1939	
n	Electric spectaculars	___ ___%		___ ___%	
o	Streetcar and bus cards	___		___ ___	
p	Preparatory work	___		___ ___	
q	*Outdoor subtotal*		$___ ___%		$___ ___%
	Broadcasting				
r	Wire charges	$ ___%		$___ ___%	
s	Programs and other preparatory work	___		___	
t	*Radio subtotal*		$ ___%		$ ___ ___%
AUXILIARY MEDIA					
u	Window displays	$ ___ %		$___ %	
v	Direct-by-mail campaigns	___ ___			
w	House organs for owners	___ ___		___	
x	Catalogues and pamphlets	___		___	
y	Shows and exhibitions	___		___	
z	Dealers' signs	___ ___		___ ___	
aa	Souvenirs	___ ___		___	
ab	Motion pictures	___ ___		___ ___	
ac	Miscellaneous	___ ___		___ ___	
ad	*Auxiliary media subtotal*		$ %		$___ %
ae	SUNDRY CONTINGENCIES	$___ ___%		$___ ___%	
af	ADVERTISING ADMINISTRATIVE EXPENSE	___ ___		___ ___	
ag	ADVERTISING POOL EXPENSE	___ ___		___ ___	
ah	*Subtotal*		$___ %		$___ %
ai	LESS MONEY RECEIVED FROM SALE OF MATERIAL TO DEALERS		___ ___		___
aj	*GRAND TOTAL [Item (ah) less (ai)]*		$___ 100%		$___ 100%

5. How the Division's Appropriation Plus All Other Advertising Sums Will Be Spent

Primary media:

	1940		1939	
a. General magazines	$____ __%		$____ __%	
b. Women's magazines	____ __		____ __	
c. Other magazines reaching selected audiences	____ __		____ __	
d. National, state, or sectional farm papers	____ __		____ __	
e. Trade papers	____ __		____ __	
f. Preparatory work	____ __		____ __	
g. *Magazines subtotal*		$____ __%		$____ __%
h. English-language newspapers	$____ __%		$____ __%	
i. Foreign-language newspapers	____ __		____ __	
j. Preparatory work	____ __		____ __	
k. Publicity costs	____ __		____ __	
l. *Newspapers subtotal*		$____ __%		$____ __%
m. Poster and painted bulletins, highway bulletins, and road signs	$____ __%		$____ __%	
n. Electric spectaculars	____ __		____ __	
o. Streetcar and bus cards	____ __		____ __	
p. Preparatory work	____ __		____ __	
q. *Outdoor subtotal*		$____ __%		$____ __%
Broadcasting:				
r. Wire charges	$____ __%		$____ __%	
s. Programs and other preparatory work	____ __		____ __	
t. *Radio subtotal*		$____ __%		$____ __%

Auxiliary media:

	1940	1939
u. Window displays	$____ __%	$____ __%
v. Direct-by-mail campaigns	____ __	____ __

	1940		1939	
w. House organs for owners.......	___ __		___ __	
x. Catalogues and pamphlets....	___ __		___ __	
y. Shows and exhibitions........	___ __		___ __	
z. Dealers' signs....	___ __		___ __	
aa. Souvenirs.......	___ __		___ __	
ab. Motion pictures..	___ __		___ __	
ac. Miscellaneous...	___ __		___ __	
ad. *Auxiliary media subtotal*.....		$___ ___%		$___ ___%
ae. SUNDRY CONTINGENCIES......	$___ __%		$___ __%	
af. ADVERTISING ADMINISTRATIVE EXPENSE......	___ __		___ __	
ah. SUBTOTAL.......	$___ __%	$___ ___%	$___ __%	$___ ___%
aj. *GRAND TOTAL*		$___ 100%		$___ 100%

6. APPROXIMATE PER CENT OF ABOVE 1940 GRAND TOTAL TO BE DEVOTED TO MAJOR EFFORTS SUCH AS:

New car__________% Used car__________% Any other__________%

7. APPROXIMATE MONTHLY BUDGET BREAKDOWN OF ITEM 3*a* (1940 COLUMN) (NOTE: Item (3*b*), Advertising pool, to be supplied by Sales Section.)

	January	February	March	April	May	June
PRIMARY MEDIA:						
a. General magazines...	$___	$___	$___	$___	$___	$___
b. Women's magazines.	___	___	___	___	___	___
c. Other magazines reaching selected audiences.........	___	___	___	___	___	___
d. National, state, or sectional farm papers..	___	___	___	___	___	___
e. Trade papers........	___	___	___	___	___	___
f. Preparatory work (magazines).......	___	___	___	___	___	___
h. English-language newspapers........	___	___	___	___	___	___
i. Foreign-language newspapers........	___	___	___	___	___	___
j. Preparatory work (newspapers)......	___	___	___	___	___	___
k. Publicity costs.......	___	___	___	___	___	___

	January	February	March	April	May	June
m. Poster and painted bulletins, highway bulletins, and road signs	____	____	____	____	____	____
n. Electric spectaculars	____	____	____	____	____	____
o. Streetcar and bus cards	____		____	____	____	____
p. Preparatory work (outdoor).	____	____	____	____	____	____
Broadcasting:						
r Wire charges	____	____	____	____	____	____
s Programs and other radio preparatory work	____	____	____	____	____	____
AUXILIARY MEDIA:						
u. Window displays	$____	$____	$____	$____	$____	$____
v. Direct-by-mail campaigns	____	____	____	____	____	____
w. House organs for owners		____	____	____	____	____
x. Catalogues and pamphlets .	____	____	____	____	____	____
y. Shows and exhibitions	____	____	____	____		____
z Dealers' signs	____					____
aa. Souvenirs		____	____			____
ab Motion pictures	____		____	____		
ac Miscellaneous	____	____	____	____		____
ae SUNDRY CONTINGENCIES	$	$____	$	$	$	$
af ADVERTISING ADMINISTRATIVE EXPENSE	____	____		____	____	
ag. ADVERTISING POOL EXPENSE	____	____	____		____	
aj *GRAND TOTAL*	$____	$____	$____	$____	$____	$____

8 MAGAZINES

(On expenditures shown in Item 4 1940 column for:

a. General magazines
b Women's magazines
c Other magazines reaching selected audiences
d. National, state, or section farm papers)

List the following information for each magazine included in the proposed schedule:

NOTE: Publications sold as a unit or as a group need not be listed separately. (Insert additional sheets, if necessary.)

Name of publication	Size of Space	Color or Black and White	Number of Insertions	Cost	Per Cent of Total Magazine Schedule

9. Per Cent of Sales and Dealers by Size of Towns

	Under 2,500	2,500 to 10,000	10,000 to 25,000	25,000 to 100,000	100,000 and over
Sales	______%	______%	______%	______%	______%
Retail outlets	______%	______%	______%	______%	______%

10. Newspapers

(On expenditures shown in Item 4 1940 column for: (*h*) English-language newspapers; (*i*) Foreign-language newspapers.)

Give the following information pertaining to newspapers on the schedule:

a. How many cities are on the schedule? ____________

b. How many newspapers? ____________

c. How many newspapers are being used in towns or cities:

Under 2,500 ____________

2,500 to 10,000 ____________

10,000 to 25,000 ____________

25,000 to 100,000 ____________

100,000 and over ____________

d. How much money is being contributed by the division to dealers' cooperative newspaper advertising? $ ____________

e. How much money is being spent independently of dealers' cooperation for newspapers? $____________

11. Outdoor

(On expenditures shown in Item 4 1940 column for: (*m*) Paper and painted boards, Highway bulletins, and Road signs; (*n*) Electric spectaculars; (*o*) Streetcar and bus cards.)

Give the following information:

a. How many poster boards? ____________

b. How many painted bulletins? ____________

c. How many highway bulletins? ____________

d. Approximately how many road signs? ____________

e. How many electric spectaculars? ____________

f. How many cities covered by streetcar and bus cards? ____________

12. Radio

(On expenditures shown in Item 4 1940 column for: (*t*) Radio subtotal.)

General motors $____________

Any other radio activities ____________

13. Window Displays

(On expenditures shown in Item 4 1940 column for: (*u*) Window displays.)

a. How many different kinds of window displays? ____________

b. Approximate total number to be distributed ____________

14. Direct-by-mail Campaigns

(On expenditures shown in Item 4 1940 column for: (*v*) Direct-by-mail campaigns.)

List each direct-by-mail activity outside of Standard Sales Promotion Direct-by-mail Plan: ____________

15. House Organ for Car Owners

(On expenditures shown in Item 4 1940 column for: (*w*) House organs for owners.)

Give the following information:

a. Number of owners covered________________

b. Any other circulation such as prospects, dealers, etc.________________

c. Frequency of issue________________

16. Catalogues and Pamphlets

(On expenditures shown in Item 4 1940 column for: (*x*) Catalogues and pamphlets.)

Give the following information:

a. How many different pieces of literature?________________

b. Approximate total number to be distributed________________

17. Shows and Exhibitions

(On expenditures shown in Item 4 1940 column for: (*y*) Shows and exhibitions.)

Give approximate number of shows and places where they are to be held:

18. Dealers' Signs

(On expenditures shown in Item 4 1940 column for: (*z*) Dealers' signs.)

List types of dealers' signs:

How many of each will be distributed?________ Cost to division $________

Cost to dealer $________

19. Souvenirs

(On expenditures shown in Item 4 1940 column for: (*aa*) Souvenirs.)

Give the following information:

Method of handling souvenirs, such as:

	Yes	No
a. Purchased by division and sold through regions or zones	______	______
b. Handled through souvenir broker, etc.	______	___

c. Cost: Dealers' share______% Division's share______%.

d. Number of items offered:______

20. Motion Pictures

(On expenditures shown in Item 4 1940 column for: (*ab*) Motion pictures.)

Give the following information:

a. List names of films to be used.

b. Approximately how many cities and towns will be covered________

21. Miscellaneous

(On expenditures shown in Item 4 1940 column for: (*ac*) Miscellaneous.)

Describe any new advertising schemes not covered by standard classifications above.

22. Advertising Administrative Expense

(On expenditures shown in Item 4 1940 column for: (*af*) Advertising administrative expense.)

Give the following information:

a. Different broad classifications of work in advertising department.

b. Number of people employed.

23. ADVERTISING POOL EXPENDITURE SHOWN IN ITEM 3-*b*

(Data to be supplied by Sales Section)

24. DIVISION BRANCH OR RETAIL STORE ADVERTISING SHOWN IN ITEM 3-*c*

Give the following information:

a. Number of cities in which these expenditures occur________________

b. Total expected volume of branch and retail stores doing this advertising $________________

25. DEALERS' CONTRIBUTIONS

Describe dealer cooperative plan bringing out clearly dealers' contribution and division's contribution.

	Newspaper	Poster and Painted Boards, Highway Bulletins and Road Signs
a. How many cities are on the schedule?.. ..	__________	__________

b. How many newspapers?________________

c. Approximately what per cent of newspaper effort will be devoted to new-car advertising? ______% Used-car advertising? ______%

d. How many paper and painted boards, highway bulletins, and road signs?________________________

e. Describe briefly any cooperative efforts outside of newspaper and billboards or any other contributions which the dealers make to the advertising of the division's product.

26. DISTRIBUTORS' AND DEALERS' OWN ADVERTISING

Give the following information:

a. Approximate number of cities in which these expenditures occur ______

b. Approximately what per cent of the effort will be devoted to new-car advertising? ______% Used-car advertising? ______%

27. Advertising agency handling account________________________
Account executive______________________________

28. AUTHORIZATIONS

This will certify that the foregoing in my judgment is a correct analysis of the proposed expenditure. Further, that the expenditures recommended are to the best interests of the corporation and its stockholders.

Authorized by
Approved by

Estimates and data—
Prepared by
Advertising Manager

____________________ __________
Group executive Date

____
Date

Authorized by
Approved by

Approved by
General Sales Manager

____
President Date

____
Date

Authorized by
Approved by
Executive
Committee

____
Secretary Date

Authorized by
Approved by
General Manager of Division

____
Date

Authorized by
Approved by
Finance
Committee

____
Secretary Date

NOTE: This approximation request is expected to completely cover all expenditures made by the division or subsidiary during 1940. In the event that an additional emergency sum is needed, the request for the sum is to be made on "Emergency Advertising Appropriation Request" form.

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CHAPTER XIX

Consumer Campaigns

The chapters thus far have dealt primarily with the various problems that present themselves in marketing a product. Successful marketing calls for a succession of correct decisions First, there is always the matter of policy that must be decided upon. Following the basic decision of policy, there is always the problem of carrying out the policy in the most successful manner.

This chapter will explain in considerable detail a successful consumer campaign, Windex, used for cleaning windows; and a combination consumer-industrial campaign, Cellophane.

The Windex Campaign.—Windex is manufactured by the Drackett Products Company of Cincinnati, Ohio. This company is perhaps best known for its successful marketing of Drāno, a product used in the house for opening clogged sink drains. Dealer distribution for Drāno was secured by crews of specialty salesmen, who used a unique demonstration. The salesman would clog a glass drain pipe with grease and other materials and would then pour in Drāno. The dealer could actually see Drāno opening up the drain and was thus convinced that the product would do what was claimed for it. Drāno was first introduced in Cincinnati as a test city. Following the successful introduction of the product in that city, the same procedure was followed in Philadelphia, Cleveland, Milwaukee, and a number of other cities before "going national." In order to make certain that wholesalers would have the product in stock, Drāno was sold on a guaranteed-sale basis; that is, the wholesaler had the privilege of returning for full credit any unsold merchandise.

This brief reference to Drāno is made simply to point out that, in introducing Windex, the Drackett Company was in a position to draw upon a wealth of experience in distributing another new product to the same market. It is suggested that, in reading the story of Windex, prepared especially for this chapter through the courtesy of H. R. Drackett, president of the company, careful attention be paid to certain points:

1. There was evidence of a real want that was not being successfully satisfied by the many window-cleaning preparations on the market. It is well to remember that human wants are the mainspring of our economic system and that all successfully marketed products are definitely tied up in the public consciousness with specific wants.

2. The product was developed to the point where it was *right* as to *quality* and *price* before it was placed on the market.

3. The complete campaign was planned, based upon a market forecast, before the product was introduced.

4. The price structure is determined largely by distributors and the manufacturer has little control over resale prices unless the product is sold under certain fair-trade laws or on consignment. A manufacturer does, however, have a right to select his customers, and the policy of the Drackett Company has always been to encourage its distributors to sell its products at prices that will give them the profit to which they are entitled as a result of the distributive service rendered.

5. The salability of the product was tested in Cincinnati, the place of manufacture. It should be pointed out here that there is no excuse for a national advertising failure, if manufacturers will have the patience to test out new products in a limited number of small cities *before* "going national." Such tests show whether the product will sell and *repeat*. Notice that Windex proved itself to be a product that would *repeat* before it was introduced in other test cities and, eventually, nationally.

6. New York was the last city in which the product was introduced. Although New York is the largest market, it is the hardest to win. New York is the graveyard of many campaign failures.

7. Advertising, merchandising, and selling were coordinated. In modern marketing procedure, dealer distribution *precedes* advertising; that is, the wholesalers and retail outlets are stocked

before the advertising is released. In this way, demand created by advertising can be supplied at points of purchase. To force distribution through advertising is a costly, inefficient process.

With this introduction, let us now consider the story of Windex as told by Mr. Drackett.

Windex came out of our research laboratory, we might say, by request. Our sales executives had observed that a rather inefficient liquid window cleaner had a certain amount of consumer acceptance when offered by members of a women's guild. Specifications were given the laboratory, such as: the product must clean flat glass efficiently; it must not spot curtains or draperies; it must not injure hands; it must be nontoxic and noninflammable; it must not whiten or spot woodwork or floors; and it must have a cost permitting suitable selling price as related to other household cleaning items.

The first formula submitted fit all specifications, except that the cost indicated a selling price far above the products with which it would have to compete. Further work was done in the laboratory until a highly efficient formula was evolved which seemed to fit the price specification.

When cost studies had been made of the product, attention was given to estimating advertising and selling costs and, of course, eventual volume. These were made on the basis of available information on other products in the cleansing field.

Finally we set up three volume figures—namely, 50,000 cases, 500,000 cases, and 1,000,000 cases. A complete cost study, including all elements, was made on each of the three possible volumes. It is significant here that all costs, particularly sales and advertising, were estimated on a national basis. From what we knew of the market for other products, we deduced that a satisfactory volume could only be attained on a national basis. After consideration we selected the volume figure which seemed both attractive from a profit standpoint and quite within the realm of possibility. Certain cost items were, at this stage, still estimates. We assumed, for example, a certain advertising appropriation which was satisfactory on a cost-per-case basis. We did not know whether this appropriation would do the necessary job of influencing the consumer, but experience led us to think it was adequate.

Next we set up our price structure; that is, the price to the wholesale distributor, the price at which the wholesaler would probably sell the product to the retailer, and the probable price per unit to the consumer. These trade margins can be figured rather accurately, as classes of items in the grocery trade keep to a rather uniform markup. For example, if it is customary for the grocery trade to take a spread between the consumer price and the manufacturer's price of about 28 or 30 per cent

on cleansers, you can be rather sure that a new product entering that field would seek that level of markup very quickly, no matter at what price you suggest it be sold to the consumer.

The next step was to test the salability of Windex in an actual marketing operation. Cincinnati, for obvious reasons, was chosen for the test. Two retail salesmen placed the product in retail stores. Each store called on was given four bottles of Windex free, for permitting the salesman to make a display of it on a prominent counter. Merchants were shown reprints of newspaper copy to be run and informed as to when it would break. One afternoon paper was used. Wholesalers were called on and sold (guaranteed sale) a small stock of standard cases (12 6-ounce bottles) to cover repeat business from retailers. Chain warehouses were visited and given four bottles free per store, in consideration of tie-in advertising in the chain's own advertising as soon as the newspaper copy appeared.

A 6-month period was sufficient to prove that Windex would sell to the consumer and repeat.

Next we tested the product in Utica, Omaha, Syracuse, and Indianapolis.

Our method of gaining distribution was to pack four bottles of Windex free with each dozen Drāno which went through the wholesaler to the retailer. Instructive material was included, addressed to the dealer, asking him to put Windex on sale in his store at 20 cents. To compensate the wholesaler for handling this free goods, we gave him one standard case of Windex, that is, 12 6-ounce bottles free with every ten combination cases purchased. We limited the purchase of these combination cases, allowing each wholesale distributor to buy only a number equivalent to three times his average purchase of Drāno during the preceding 12 months. We knew from studies we had made that, in a 3 months' period, practically every retail customer handling Drāno would make a purchase of that item. We therefore assumed that a quantity three times the average monthly Drāno purchase by the wholesaler would permit one combination case to each retail customer. We asked wholesalers to limit the purchases to one case, except in the case of large retail outlets. We, of course, had no control over this, and many retailers got more than they should have had of the free goods.

In the case of chain stores, we felt that they would not be inclined to send out a full case of Drāno to all their stores, even though each case contained Windex. Therefore we offered to the chains a *half* case of Windex (6 6-ounce bottles) free, to the extent of one case per store. We required them to purchase case for case of standard Drāno along with the free half cases. Since we were giving the chains free 6 6-ounce

An advertisement widely circulated in magazines during the introductory period of Windex

Windex with a dozen Drāno, we did not give them a standard case of Windex free with every ten combinations as we did with the wholesalers.

As in the case of Cincinnati, one afternoon paper was used in each town with one advertisement appearing once a week. The advertisement appearing on page 401 is one of the advertisements from the introductory campaign.

After we had been in Utica, Omaha, Syracuse, and Indianapolis for about 4 months, we opened Milwaukee, Baltimore, Atlanta, and San Diego. We did this, first, to give each of our major field men experience in handling our distribution plan and, second, to broaden our test.

Newspaper advertising was done in each market at the rate of about 10,000 lines per year, concentrated to some extent in spring and fall.

After 6 months in the final group of four markets, we selected a list of 35 cities, which in the aggregate contribute about 25 per cent of the total grocery sales of the United States. New York City and metropolitan area were not in this group.

In 3 months' time, we had our distribution by the tested method and started national advertising in the *Ladies' Home Journal*, *Woman's Home Companion*, and *McCall's*. In the 12 largest markets of the 35, we ran 5,000 lines of newspaper advertising.

Next we took all cities over 250,000 population not already covered and launched our distribution drive in them. This was accomplished in about 3 months, and, finally, we expanded the distribution to all cities of 25,000 and over, except New York.

It was not until the following year that we opened New York. When we did, we employed the same distribution plan but no newspaper advertising.

At the time we were building distribution in towns of 25,000 and larger, we test-sampled Atlanta, Baltimore, and Indianapolis—three of the test cities. We delivered a 2-ounce bottle—ring and hand-in service—to the better 75 per cent of the homes. This sampling was apparently not effective and we did not repeat it elsewhere. This should not be interpreted as evidence that sampling cannot be productive. When a new product is trying to break into a market against competition for which the consumer has a strong brand loyalty, sampling may be an absolute necessity.

The initial effort in Cincinnati on Windex took place in 1933. By 1936 the product was "in the black" and has grown rapidly since then. In 1940 sales are running 25 per cent ahead of 1939.

In 1938 volume had grown to the point where a price reduction was possible. This brought the price per bottle to the consumer down from 19 and 20 cents to 15 and 16 cents.

The advertising appropriation has grown with increased volume until it is now about $250,000 per year.

How Cellophane Was Sold.—In 1924 one of the largest manufacturers in the country found himself with a new product on his hands. He had the utmost faith in this product and ample facilities for making it and knew that it could be used for many purposes and give better service than anything else available. The new product was a thin transparent sheet, called "cellulose film," and given the trade-mark Cellophane. That was by the first manufacturer in France several years ago. The American manufacturer was the newly organized DuPont Cellophane Company, a subsidiary of E. I. DuPont de Nemours & Co., Inc., which had just acquired the American rights.

But there was no demand. No "want" book had it listed; no inquiries came in asking for prices or deliveries. No purchasing agent had been requisitioned for Cellophane.. Its nearest competitor was glassine, which sold for less than one-tenth of the price of Cellophane and served many of the same purposes.

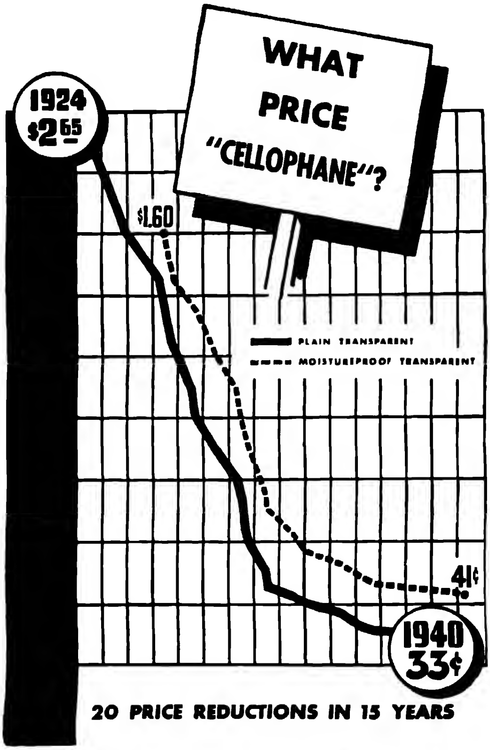
What industry and what companies within that industry would be the best prospects? With a less versatile product those questions might have been answered more easily. The whole food industry offered possibilities: meats, bakery goods, noodles, nuts, and confections seemed equally to need Cellophane but all were unconscious of such need. Cigars, cigarettes, haberdashery, toilet goods—in fact every product which sold better by being exhibited but which was made less attractive by handling could make use—and profitable use—of this new transparent wrapping material.

A new kind of selling job was required. Not only must the buyer be convinced of the virtues of the product, but its profitable use required actual demonstration through test. With the original price at $2.65 a pound, the actual selling was by no means easy.

Time after time able salesmen were turned away, not because of lack of merit of their offering, but because its adoption would be so revolutionary and so expensive. At last S. F. Whitman & Sons, extensive and progressive candy manufacturers of Philadelphia, decided to give Cellophane a trial. Their product required an attractive container, and the addition of this new transparent wrapping material, to cover and protect the exquisite candy boxes which they were using, offered possibilities. With gift candy it is largely the package that makes the sale, and

Cellophane not only made the boxes more alluring but added to their ability to protect the candy from deterioration. Also it kept the package clean and attractive until it was delivered to the consumer.

By dint of much advertising and intelligent and aggressive selling, inside of 2 years the manufacturer had secured the adoption of his product in quite a few factories, including one of the smaller packing houses, a glacé fruit company, one of the largest



From an industrial advertisement.

chain bakeries, and several other important industrial users, some of which were mentioned in the early consumer advertisements.

With the rapid increase in volume the price was as rapidly reduced, and this was a great factor in extending the market. At the original price of $2.65 a pound it is doubtful if Cellophane could ever have developed a quantity demand. Only high-priced merchandise could have afforded such expensive wrapping.

This campaign is distinctive in that the actual selling and sales promotion were in the industrial field, while the greatest extent of the advertising has been in consumer media. Extending the use of Cellophane into a new industry has seldom started at the top. The largest institutions were found so fully equipped with wrapping and packaging machinery that adopting a new material for containers involved a great expense. So instead of waiting for the leaders to act, the sales department went aggressively after the smaller and medium-sized firms, which could experiment with a new wrapping material at a less proportional cost. Once it was used by any considerable part of an industry, the rest soon felt the competition and adopted Cellophane, a competing product, or the nearest possible substitute. In any event, every adoption of a transparent wrapper by one company was an added influence on other firms, having similar products, to fall in line.

By 1926 the new product had been sufficiently tested and proved so that a new type of sales promotion was thought feasible. A consumer advertising campaign was introduced. Now it is evident that the amount of Cellophane that could be sold to housewives, or other consumers, would not justify an expensive advertising campaign in magazines. But this advertising was not planned to sell anything to consumers. It was intended to bring pressure from the ultimate consumers upon the manufacturers

A few similar campaigns had proved resultful. Vanadium steel was first sold to automobile manufacturers by advertising in general magazines. Armco iron, by advertising the rust-resisting properties of its product to the general public, had brought pressure to bear on fabricators using sheet metal. The Burroughs Adding Machine Company, by showing the comparative neatness of a statement typed on one of its bookkeeping machines with a similar hand-written statement, had induced many firms to adopt the bookkeeping machine long before they otherwise would have done so. Roller and ball bearings for vehicles, Hoffman valves on radiators, and Palm Beach cloth for summer suits had all used consumer advertising successfully in inducing manufacturers and builders to adopt the product made familiar to the ultimate consumer by advertising.

The skillful appeal to clean, sanitary and transparent packaging made in the first of the consumer advertisements, shown on page 407, also bears a message for manufacturers. No concern which identifies its products can afford to be thought old-fashioned or unprogressive. The effect of this advertising was to produce just that impression about all manufacturers who might use Cellophane advantageously, but did not. The advertising also taught people to look for and expect quality products to be protected by a dustproof covering which permitted visual investigation. If such wrapping was not provided, the consumer could only wonder why.

From the initial broadside to manufacturers showing how their products would appear wrapped in Cellophane, to the current portfolio—"What Price Cellophane"—the producer has not permitted his prospects to forget the rapid progress that Cellophane is making. Names of leading advertisers with pictures of their products encased in the transparent wrapper are persistently circulated among those who have as well as those who have not adopted Cellophane. In addition to this prestige of patronage, which is given the widest publicity, exhibits of forth-coming, large-space advertising in full color is extensively circulated. This is a reminder that if the manufacturer uses Cellophane the consumer advertising will be working for him. If not, it will just as surely be working against him and for the competing or substitute product which wears a Cellophane wrapper.

In 1928 an improvement was effected which made Cellophane moistureproof as well as dustproof. This greatly extended the market, as the new form could be used for cigars and cigarettes and for other products where the exclusion of moisture, or the even more difficult feat of holding moisture, was important in maintaining uniform quality. The first industry to adopt the moistureproof Cellophane was the cigar manufacturers. It was found that the machines which had previously wrapped the cigars in tin foil could easily be transformed to use the new cellulose film (which is the real name of "Cellophane") instead of the tin foil.

The next industry was that of the closely allied cigarette. Some of the smaller operators had adopted Cellophane soon after the radical price reductions of the first years made it economically feasible, but without giving the innovation extensive publicity.

Then Camels got in step and with the million-dollar contest which announced the new wrapping, the R. J. Reynolds Company spent more money in a few months advertising Cellophane—along with its contest—than its manufacturers had spent in all

You can Literally See

QUALITY and PROTECTION

. . . thru "Cellophane"

When you buy Cellophane-wrapped merchandise you can be sure that it is absolutely protected from dust, dirt and handling. No better example of this can be offered than the fact that the F. H. Roberts Company uses it as the outer wrap and protective seal for its famous Apollo Candies.

For when Cellophane is used as a sparkling, beautified outer wrapping, you have the comforting knowledge that the product it enfolds reaches you attractive, clean and in perfect condition. You owe it to yourself to look for those leading brands of candy, drugs, bakery products, toilet articles, dried and candied fruits, smoked and cured meats and textiles which now are wrapped in Cellophane. It is a touch of quality that bespeaks the manufacturer's interest in your complete satisfaction.

To Manufacturers: ***See how Cellophane will enhance the sales value of your product. We'll be glad to send you actual proof upon receipt of a word from you — on your letterhead.***

DU PONT CELLOPHANE CO., Inc.
Sales Offices: **40 West 40th St., New York City**
Plant and Executive Offices: **Buffalo, New York**

One of the early Cellophane advertisements.

the years it had been on the market. Three million dollars was expended to inform the public how another million was to be given away to those who best explained how a Cellophane wrapper would enhance the pleasure of cigarette smoking. If there was anyone in the United States who didn't know that product when the Camel campaign started, he was not long left in ignorance. The American Tobacco Company soon followed and instituted an improvement on the Camel wrapper. It was the

"Lucky Tab" which made it easier to open the package. Other millions were now spent in advertising Cellophane as a wrapper with a tab for Lucky Strikes. In Chap. XX, it is related how the Armco president christened this "collateral" advertising. But Armco iron never reaped such a bountiful harvest as did Cellophane during these two cigarette campaigns.

A pricing policy was early established by Cellophane that has contributed greatly to its outstanding success. The price has been consistently reduced as rapidly as improved methods of manufacture and increased volume lowered costs. First prices were almost prohibitively high—$2.65 a pound. It was necessary to cover high manufacturing costs. Always the price has been set by costs and reductions made wherever economy in costs permitted.

The handling of the trade-mark has presented difficulties As already pointed out, when a new item of merchandise is patented under a definite name, that name becomes common property upon the expiration of the patent. Again if the trade name—or trade-marked name—is permitted to become so commonly used that it is generic, the distinctiveness of the identifying name is lost. To prevent any question of this kind being raised, the DuPont Cellophane Company always places their trade name of the product in quotation marks, "Cellophane." In use they write "Cellophane" cellulose film. That is the method by which the name Vaseline has been so successfully protected. It is not merely Vaseline, but "Vaseline" petroleum jelly.

CHART I—MARKETING

STUDIES NEEDED BY A MANUFACTURER PRIOR TO A CAPITAL INVESTMENT IN THE PRODUCTION AND MARKETING OF A NEW CONSUMER PRODUCT

	SIZE OF MARKET (NUMERICAL)	GEOGRAPHICAL LOCATION OF MARKET	DOLLAR VALUE OF MARKET	PURCHASING POWER OF MARKET	MARKET BUYING HABITS (DISTRIBUTIVE)	MARKET BUYING HABITS (CONSUMER)	FIRM'S RELATION TO MARKET	COMPETITION	MANUFACTURER'S PRICE POLICY	DISTRIBUTION METHOD	CREDIT AND COLLECTION POLICY	SALES PROMOTION	SALES ORGANIZATION	COST TO CONSUMER	SERVICE TO CONSUMER	PRICE POLICY TO CONSUMER	CONTROL OF PRODUCT TO CONSUMER
1. THE MARKET																	
WHO WILL USE THE NEW PRODUCT? (WHAT CLASS OF PEOPLE)	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		
WHAT IS THE GEOGRAPHICAL LOCATION OF THE MARKET? (WHERE ARE THEY LOCATED)	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		
WHAT IS THE INCOME OF THE POTENTIAL USERS OF THE NEW PRODUCT?	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		
WHAT AREAS CONTAIN THE MAJOR PART OF HE MARKET?	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		
WHAT IS THE GROWTH PROJECTION OF THE MARKET?					✓		✓	✓	✓	✓	✓	✓	✓	✓	✓		
WHAT IS THE PRESENT CONSUMPTION OF COMPARATIVE PRODUCTS?	✓	✓	✓	✓	✓			✓	✓	✓	✓	✓	✓				
WILL THE NEW PRODUCT GO INTO EXPORT FIELDS?	✓	✓	✓	✓		✓		✓	✓	✓	✓	✓	✓	✓	✓		
2. BUYING HABITS OF THE MARKET (DISTRIBUTIVE GROUP)																	
WHO WILL BUY THE NEW PRODUCT (WHOLESALERS AND RETAILERS)	✓	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓				✓	✓
WHAT IS THE AVERAGE NUMBER OF PEOPLE WHO MUST BE CONTACTED BEFORE THE ORDER CAN BE CLOSED?					✓		✓	✓	✓	✓	✓	✓					
WHAT IS THE AVERAGE TIME BETWEEN FIRST CONTACT AND SALE?					✓		✓	✓	✓	✓	✓	✓					
WHAT RELATIVE WEIGHT DOES THE MARKET GIVE TO QUALITY, STYLE, SERVICE OR OTHER QUALITIES OF THE NEW PRODUCT, ESPECIALLY IN RELATION TO THE MERCHANDISE WHICH IT WILL REPLACE?					✓		✓	✓	✓	✓	✓	✓					
AT WHAT SEASON IS THE BUYING DONE?		✓			✓		✓	✓	✓	✓	✓	✓					
WHAT ARE THE MARKET PRACTICES ON DISCOUNTS, ALLOWANCES, BILLING, CREDIT OR OTHER FINANCIAL FACTORS?		✓			✓		✓	✓	✓	✓	✓	✓				✓	✓
WHAT PRICE CAN YOU EXPECT THE MARKET TO PAY FOR THE NEW PRODUCT ON THE BASIS OF CURRENT PRICES OF COMPARATIVE GOODS?	✓	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓				✓	✓
(ULTIMATE CONSUMERS)																	
WHO WILL BUY THE NEW PRODUCT?		✓				✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
WHAT RELATIVE WEIGHT DOES THE CONSUMER GIVE TO QUALITY, STYLE, SERVICE COST OF OPERATION OF SIMILAR MERCHANDISE?		✓				✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
IS SIMILAR MERCHANDISE BEING SOLD ON TIME PAYMENT?		✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
AT WHAT SEASON IS THE BUYING DONE?	✓	✓				✓	✓	✓			✓	✓			✓		
WHAT PRICE CAN THE CONSUMER BE EXPECTED TO PAY FOR THE NEW PRODUCT?	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓	✓		✓	✓	✓	
3. FIRM RELATION TO THE MARKET (DISTRIBUTIVE GROUP)																	
IS THE FIRM NAME AND REPUTATION ALREADY ESTABLISHED IN THE MARKET?					✓		✓	✓	✓			✓	✓				
IS THE MANUFACTURER'S REPUTATION SIZE CHARACTER OF MERCHANDISE OR OTHER QUALITY SUSCEPTIBLE TO CONSTRUCTIVE EXPLOITATION IN ESTABLISHING THE NEW MARKET?		✓					✓		✓			✓	✓				
(CONSUMER GROUP)																	
IS THE NAME AND REPUTATION OF THE MANUFACTURER ALREADY ESTABLISHED IN THE CONSUMER'S MIND IN RELATION TO																	
(A) SIMILAR PRODUCTS?	✓	✓				✓	✓	✓		✓		✓	✓	✓	✓	✓	
(B) QUALITY?	✓	✓				✓	✓	✓		✓		✓		✓	✓	✓	
(C) DEPENDABILITY OR OTHER VIRTUE?	✓	✓				✓	✓	✓		✓		✓		✓	✓	✓	
IS THE FIRM NAME OR TRADE MARK SUSCEPTIBLE TO FURTHER EXPLOITATION AMONG CONSUMERS?	✓	✓				✓	✓	✓		✓		✓		✓	✓	✓	
4. COMPETITION																	
WHAT COMPETITION WILL THE NEW PRODUCT FACE?		✓			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
WHAT IS THE STANDING OF COMPETITIVE MANUFACTURERS WITH THE MARKET?					✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
WILL MARKETING THE NEW PRODUCT RESULT IN ADDITIONAL OR KEENER COMPETITION ON THE REGULAR LINE?	✓	✓			✓	✓	✓	✓	✓	✓	✓	✓	✓				
CAN ANY COMPETITOR BRING OUT A SERIOUSLY COMPETITIVE ITEM QUICKLY?		✓			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		
5. MANUFACTURER'S PRICE POLICY																	
WHAT IN GENERAL WILL BE THE PRICE POLICY ON THE NEW ITEM?	✓	✓	✓	✓	✓	✓	✓	✓		✓	✓		✓	✓	✓	✓	
WHO WILL BE ENTITLED TO DISCOUNTS AND ALLOWANCES?																	
WHAT WILL BE THE SCHEDULE OF DISCOUNTS AND ALLOWANCES TO																	
(A) EXCLUSIVE DISTRIBUTORS	✓	✓	✓	✓	✓		✓	✓		✓					✓		✓
(B) WHOLESALERS	✓	✓	✓	✓	✓		✓	✓		✓					✓		✓
(C) RETAILERS	✓	✓	✓	✓	✓		✓	✓		✓					✓		✓
(D) OTHER CHANNELS	✓	✓	✓	✓	✓		✓	✓		✓					✓		✓
WILL BASE PRICE BE THE SUGGESTED RESALE OR CONSUMER PRICE?					✓	✓	✓	✓		✓				✓			✓
WILL NET PRICES BE:																	
(A) F O B FACTORY		✓			✓					✓			✓	✓			
(B) LOCAL WAREHOUSE		✓			✓					✓			✓	✓			
(C) DELIVERED		✓			✓					✓			✓	✓	✓	✓	
WHAT WILL BE THE CREDIT POLICY?		✓			✓	✓	✓	✓		✓			✓	✓	✓	✓	
WHAT NEW CREDIT FACILITIES WILL BE NEEDED?		✓			✓	✓	✓	✓	✓	✓	✓			✓	✓	✓	
WHAT WILL BE THE COLLECTION POLICY?		✓			✓	✓	✓	✓			✓				✓	✓	
WHAT WILL BE THE POLICY ON:																	
(A) RETURN OF GOODS?		✓			✓	✓	✓	✓		✓		✓	✓	✓	✓	✓	
(B) CONSIGNMENT OF GOODS?		✓			✓	✓	✓	✓		✓			✓			✓	✓
(C) ORDER CANCELLATIONS?		✓			✓	✓	✓	✓		✓			✓	✓	✓	✓	
(D) DAMAGED OR UNSATISFACTORY GOODS?		✓			✓	✓	✓	✓		✓			✓	✓	✓	✓	

CHART I-MARKETING
(CONTINUED)

STUDIES NEEDED BY A MANUFACTURER PRIOR TO A CAPITAL INVESTMENT IN THE PRODUCTION AND MARKETING OF A NEW CONSUMER PRODUCT

	SIZE OF MARKET (NUMERICAL)	GEOGRAPHICAL LOCATION OF MARKET	DOLLAR VALUE OF MARKET	PURCHASING POWER OF MARKET	MARKET BUYING HABITS (DISTRIBUTIVE)	MARKET BUYING HABITS (CONSUMER)	FIRM'S RELATION TO MARKET	COMPETITION	MANUFACTURER'S PRICE POLICY	DISTRIBUTION METHOD	CREDIT AND COLLECTION POLICY	SALES PROMOTION	SALES ORGANIZATION	COST TO CONSUMER	SERVICE TO CONSUMER	PRICE POLICY TO CONSUMER	CONTROL OF PRODUCT TO CONSUMER
6 CHANNELS OF DISTRIBUTION																	
WHAT TYPE OF DISTRIBUTION WILL BE USED?																	
(A) FACTORY SALES BRANCES?	✓	✓	✓	✓	✓	✓	✓	✓		✓		✓	✓	✓	✓	✓	✓
(B) EXCLUSIVE DISTRIBUTORS?	✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
(C) GENERAL WHOLESALERS?	✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
(D) EXCLUSIVE DEALER?	✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
(E) FREE DEALER	✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
(F) FACTORS-AGENTS-BROKERS?	✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
(G) DIRECT TO CONSUMER?	✓	✓				✓	✓	✓	✓		✓	✓	✓	✓	✓	✓	
(H) LARGE DEPARTMENT STORES, MAIL ORDER-CHAINS ONLY?	✓	✓				✓	✓	✓	✓		✓	✓	✓	✓	✓	✓	
(I) ANY COMBINATION OF THESE?	✓	✓				✓	✓	✓	✓		✓	✓	✓	✓	✓	✓	
WHERE WILL SERVICE STOCKS BE MAINTAINED?																	
(A) FACTORY	✓	✓	✓		✓		✓	✓	✓								
(B) BRANCH WAREHOUSES	✓	✓	✓		✓		✓	✓	✓								
(C) SERVICE WAREHOUSES	✓	✓	✓		✓		✓	✓	✓								
(D) DISTRIBUTORS-WHOLESALERS-RETAILERS	✓	✓	✓		✓		✓	✓	✓								
IF THE NEW PRODUCT IS SUBJECT TO EXPORT, WHAT TYPE OF DISTRIBUTION WILL BE USED?					✓		✓	✓	✓		✓	✓	✓				
7 SALES PROMOTION																	
WILL THE NEW PRODUCT HAVE ITS OWN SALES PROMOTION SET UP?	✓	✓	✓	✓	✓		✓	✓		✓		✓	✓	✓	✓		
WILL A NEW ADVERTISING SECTION OR DEPARTMENT BE NEEDED?	✓	✓	✓	✓	✓		✓	✓		✓		✓	✓	✓	✓		
WILL A NEW OR EXTENDED AGENCY CONNECTION BE NEEDED?	✓	✓	✓	✓	✓		✓	✓		✓		✓	✓		✓		
WILL DISTRIBUTORS BE AIDED WITH LOCAL ADVERTISING?	✓	✓	✓		✓	✓	✓	✓	✓	✓		✓		✓			
OTHER SALES PROMOTION AIDS?	✓	✓	✓		✓	✓	✓	✓	✓	✓		✓		✓			
WHAT SALES PROMOTION AIDS WILL BE SUPPLIED TO WHOLESALERS? RETAILERS?		✓	✓		✓		✓	✓				✓	✓	✓			
WILL ADVERTISING AND SALES PROMOTION COSTS BE SHARED BY DISTRIBUTORS?		✓			✓		✓	✓	✓	✓		✓	✓	✓			
WILL THERE BE ORGANIZED PUBLICITY?		✓			✓		✓	✓	✓	✓		✓	✓	✓			
WHAT IN GENERAL ARE THE SALES PRO-PRACTICES OF DISTRIBUTORS																	
FOR RESELLING THE PRODUCT?		✓			✓	✓		✓	✓	✓		✓	✓	✓			
WHAT SALES PROMOTIONAL EFFORT IS BEING MADE BY COMPETITIVE MANUFACTURERS?		✓			✓	✓		✓	✓	✓		✓	✓	✓			
WHAT WILL BE THE BASIS OF THE SALES PROMOTION BUDGET?					✓	✓		✓	✓			✓		✓	✓		✓
8 ORGANIZATION AND MANAGEMENT OF SALES FORCE																	
WILL A SPECIAL SALES STAFF OR DEPARTMENT BE NEEDED FOR THE NEW PRODUCT?	✓	✓			✓	✓	✓	✓		✓			✓	✓	✓		
WILL SALESMEN NEED SPECIAL OR TECHNICAL TRAINING?					✓	✓	✓	✓		✓			✓	✓	✓		
WILL THE ENTIRE SALES FORCE WORK FROM THE HOME OFFICE?	✓	✓			✓	✓	✓	✓		✓			✓				
HOW WILL TERRITORIES AND ROUTING BE HANDLED?	✓	✓	✓	✓	✓	✓	✓	✓		✓							
IF SALES ARE SEASONAL, WILL SALESMEN DO MISSIONARY WORK BETWEEN TIMES?							✓	✓	✓				✓				
WHAT MISSIONARY SELLING WILL BE NEEDED FOR INTRODUCTORY PURPOSES?	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓
WHAT SALES PROMOTIONAL AIDS WILL SALESMEN RECEIVE?												✓	✓	✓			
WHAT WILL BE THE BASIS OF SALESMEN'S COMPENSATION?								✓	✓					✓	✓		
9 OTHER FACTORS																	
IS THE NEW PRODUCT PATENTABLE?								✓	✓					✓			
IS ITS TRADE MARK PROTECTED?							✓	✓	✓					✓			
ARE ALL CLAIMS TO ROYALTIES OR OTHER INDEMNITIES SETTLED?									✓					✓			
DO ROYALTIES LIMIT THE MARKET FOR THE PRODUCT?	✓	✓		✓			✓	✓	✓					✓			
DO CODES AND/OR OTHER TRADE AGREEMENTS LIMIT THE MARKET OR SALES EFFORTS?	✓	✓		✓			✓	✓	✓					✓			
HAVE LOCAL TAX AND OTHER CIVIL PROBLEMS BEEN SOLVED?	✓	✓						✓	✓					✓			
HAVE ALL TRANSPORTATION PROBLEMS BEEN CONSIDERED?	✓	✓	✓					✓	✓					✓			

CHART 2 – ORIGINATION AND PRODUCTION

STUDIES NEEDED BY A MANUFACTURER PRIOR TO A CAPITAL INVESTMENT IN THE PRODUCTION AND MARKETING OF A NEW CONSUMER PRODUCT

	DIRECTIONAL RESEARCH	PURCHASE FROM OUTSIDE INVENTORS	UNDIRECTIONAL RESEARCH	PRESENT PLANT	DIFFERENT PLANT	DIFFERENT GEOGRAPHICAL LOCATION	MADE BY ANOTHER COMPANY	SEASONAL PRODUCTION	RAW MATERIALS	FINISHED STOCK	PARTS STOCK	TRANSPORTATION FACTORS	COST OF MANUFACTURE	COST TO CONSUMER	SERVICE TO CONSUMER	RELATION TO REGULAR LINE	STYLE AND QUALITY PROBLEMS
10. SOURCES OF IDEAS FOR NEW CONSUMER PRODUCTS																	
MANUFACTURERS SALES AND SERVICE STAFFS	✓	✓															
DISTRIBUTORS	✓	✓															
RETAILERS	✓	✓															
CONSUMERS	✓	✓															
COMPETITORS' MERCHANDISE	✓	✓															
NON-COMPETITIVE GOODS WHICH NEED COMPLEMENTARY EQUIPMENT	✓	✓	✓														
RESEARCH AND PRODUCTION ENGINEERS	✓		✓														
INDEPENDENT INVENTORS	✓	✓															
11. MAJOR PURPOSES FOR WHICH NEW GOODS ARE MADE																	
TO COMPLETE LINE				✓	✓	✓	✓	✓					✓		✓	✓	
TO EXPAND SALES IN PRESENT MARKET				✓	✓	✓	✓	✓					✓		✓	✓	
TO ANTICIPATE A CHANGING NEED								✓					✓	✓	✓	✓	✓
TO MEET A NEW NEED								✓					✓	✓	✓	✓	✓
TO MEET AN EXISTENT NEED MORE EFFECTIVELY								✓					✓	✓	✓	✓	✓
TO MEET STYLE CHANGES								✓					✓	✓	✓	✓	✓
TO OPEN NEW MARKETS								✓					✓	✓	✓	✓	✓
TO USE IDLE TIME OF PLANT AND EQUIPMENT				✓				✓					✓	✓		✓	
12. DESIGN FACTORS																	
WHAT IS THE MARKET DESIRE IN DESIGN?								✓	✓	✓			✓	✓	✓	✓	✓
SHALL THE DESIGN BE ORIGINAL?								✓	✓	✓			✓	✓	✓	✓	✓
HOW RADICAL A CHANGE WILL THE CONSUMER TOLERATE?									✓	✓			✓	✓	✓	✓	✓
SHALL THE DESIGN BE AN ADJUSTMENT OF PRESENT DESIGN?									✓	✓			✓	✓	✓	✓	✓
IS THE DESIGN TO BE BASED ON CLASS OR MASS MARKETS?												✓	✓	✓	✓	✓	✓
WHAT ARE THE MARKET PREJUDICES IN REGARD TO SIZE, COLOR SHAPE MATERIALS AND QUALITY?									✓	✓			✓	✓	✓	✓	✓
IN THE CASE OF MECHANICAL GOODS, IS THE DESIGN EASILY ADAPTED TO MINOR CHANGES? REPAIRS?				✓	✓	✓	✓			✓	✓	✓	✓	✓	✓	✓	✓
IS THE SELECTION OF THE DESIGN PRIMARILY A STYLE QUESTION?													✓	✓	✓	✓	✓
HOW LONG CAN THE DESIGN BE MAINTAINED WITHOUT MAJOR CHANGES?									✓	✓	✓		✓	✓	✓	✓	✓
WHAT EFFECT WILL THE DESIGN HAVE ON COST OF MANUFACTURE?				✓	✓	✓	✓	✓	✓	✓	✓		✓	✓	✓	✓	✓
WHAT EFFECT WILL THE DESIGN COST HAVE ON PRICE TO THE CONSUMER?				✓	✓	✓	✓	✓	✓	✓	✓		✓	✓	✓	✓	✓
WHAT KIND OF PACKAGE WILL BE USED FOR THE NEW PRODUCT?												✓	✓	✓		✓	✓
IS THE PACKAGE DESIGN IN LINE WITH CURRENT GOOD PRACTICE?												✓	✓	✓		✓	✓
HOW WILL THE NEW PRODUCT BE PACKED FOR STOCK OR FINAL SHIPMENT?												✓	✓	✓		✓	✓
IS THE STANDARD SHIPPING PACK BOTH SAFE AND ECONOMICAL?												✓	✓	✓		✓	✓
13. PRODUCTION FACTORS																	
CAN PRESENT LABOR PRODUCE THE NEW PRODUCT?				✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
IS SPECIAL LABOR AVAILABLE IF NEEDED?				✓	✓	✓	✓	✓					✓	✓	✓	✓	
CAN THE NEW PRODUCT BE MADE WITH PRESENT MACHINERY?				✓	✓	✓	✓	✓					✓	✓	✓	✓	
WILL PRODUCTION OF THE NEW ITEM BE SEASONAL?				✓	✓	✓	✓	✓					✓	✓	✓	✓	
IF SO WHAT PER CENT OF THE TIME WILL PART OR ALL OF THE PLANT BE IDLE?				✓	✓	✓	✓	✓					✓		✓	✓	
CAN PLANT RUN ON OTHER GOODS IN OFF SEASON?				✓	✓	✓	✓	✓					✓		✓	✓	
WHAT EFFECT WILL SEASONAL OPERATION HAVE ON COSTS?				✓	✓	✓	✓						✓	✓	✓	✓	✓
WHAT EFFECT WILL PRODUCTION OF NEW PRODUCT HAVE ON REGULAR PRODUCTION SCHEDULE?				✓	✓	✓		✓					✓		✓	✓	✓
HOW WILL CODES LOCAL LAWS LABOR AGREEMENTS OR TRADE AGREEMENTS AFFECT PRODUCTION VOLUME AND COSTS?				✓	✓	✓		✓					✓	✓	✓	✓	✓
HOW FAR CAN PRODUCTION BE INCREASED WITH PRESENT EQUIPMENT?				✓	✓	✓		✓					✓	✓	✓	✓	✓
14. MATERIAL FACTORS																	
WHAT RAW MATERIALS WILL BE USED?				✓	✓	✓	✓	✓	✓	✓		✓	✓	✓			✓
WHERE ARE RAW MATERIALS AVAILABLE?				✓	✓	✓	✓	✓	✓	✓		✓	✓	✓			✓
ARE RAW MATERIAL SOURCES DEPENDABLE?												✓	✓	✓			✓
IN AN EMERGENCY INTERRUPTING THE NORMAL SUPPLY OF RAW MATERIALS, WHAT CAN BE SUBSTITUTED?				✓	✓	✓	✓		✓	✓		✓	✓	✓			
WHAT EFFECT WILL TRANSPORTATION COSTS ON RAW MATERIALS HAVE ON FINAL COSTS?				✓	✓	✓	✓		✓	✓			✓	✓			
WHAT NEW STORAGE CAPACITY FOR RAW MATERIALS AND PARTS STOCKS WILL BE NEEDED AT PLANT?				✓	✓	✓			✓	✓		✓	✓	✓	✓		
WILL RAW MATERIAL COSTS FLUCTUATE WIDELY IN PRICE?													✓	✓	✓		
15. SERVICE FACTORS																	
WILL THE NEW PRODUCT NEED SERVICEING?										✓	✓		✓	✓	✓	✓	
IF SO, TO WHAT EXTENT?										✓	✓		✓	✓	✓	✓	
WILL SERVICE BE RENDERED BY THE MANUFACTURER?													✓	✓	✓	✓	✓
WHAT PART WILL DISTRIBUTORS, WHOLESALERS, AND/OR RETAILERS PLAY IN THE SERVICE PICTURE?													✓	✓	✓	✓	✓
WILL FREE SERVICE BE RENDERED THE CONSUMER DURING A GUARANTEE PERIOD?																✓	✓
BY WHOM?													✓	✓	✓	✓	✓
WHAT WILL BE THE BASIS OF COMPENSATION OF THE SERVICE AGENCY?													✓	✓	✓	✓	✓
WHO WILL PAY IT?													✓	✓	✓		
HOW WILL THE MANUFACTURER'S SERVICE COSTS BE ABSORBED?													✓	✓	✓	✓	
WILL SPARE PARTS BE SOLD TO SERVICE AGENCY AND/OR CONSUMER AT COST OR AT A PROFIT?													✓	✓	✓		
WHAT SPARE PARTS STOCKS WILL BE NEEDED?											✓		✓	✓	✓		
WHAT SPECIAL PERSONNEL WILL BE NEEDED FOR SERVICE WORK?													✓	✓	✓	✓	
WHERE WILL SERVICEMEN AND SPARE PARTS STOCKS BE LOCATED?											✓		✓	✓	✓	✓	
16. NEW CAPITAL INVESTMENT FACTORS																	
WHAT NEW REAL ESTATE INVESTMENT WILL BE NECESSARY?				✓	✓	✓							✓	✓	✓		
WHAT NEW ROADS, SIDINGS, POWER LINES MUST BE BUILT BY THE MANUFACTURER?				✓	✓	✓							✓	✓	✓		
WHAT NEW BUILDINGS WILL BE NEEDED?				✓	✓	✓							✓	✓	✓		
WHAT NEW RENTAL EXPENSE (PLANT, WAREHOUSE, BRANCH OFFICES) WILL BE NEEDED?				✓	✓	✓							✓	✓	✓		
WHAT NEW TOOLS WILL BE NEEDED?				✓	✓	✓	✓						✓	✓	✓		
WHAT WILL BE THE COST OF ADJUSTING PRESENT PRODUCTION MACHINERY?				✓	✓	✓	✓						✓	✓	✓		
WILL NEW CAPITAL BE NEEDED?				✓	✓	✓	✓										
17. RELATION OF NEW PRODUCT TO REGULAR LINE																	
WHAT IS THE RELATION IN QUALITY?				✓	✓	✓	✓		✓	✓	✓		✓	✓		✓	✓
WHAT IS THE RELATION IN MANUFACTURING METHODS?				✓	✓	✓			✓	✓	✓	✓	✓			✓	✓
WHAT IS THE RELATION IN TYPE OF GENERAL CHARACTER OF GOODS?				✓	✓	✓	✓			✓			✓	✓	✓	✓	
WHAT IS THE RELATION IN FIELDS OF USE?												✓	✓	✓	✓	✓	✓
WHAT IS THE RELATION IN PRICE LEVELS?													✓	✓	✓		✓
WHAT IS THE RELATION IN METHODS OF PACKING AND SHIPPING?				✓	✓	✓							✓	✓	✓		✓

CHAPTER XX

Industrial Marketing

What Industrial Marketing Is.—The United States is justly called an "industrial nation." This means that more of its people gainfully employed are engaged in producing and distributing manufactured or processed products than in agriculture and transportation. The initial stage of production occurs on the various farms, in forests, mines, and fishing grounds. Products that come from these sources are largely subject to processing or being changed in form, which the economists call "adding form utility." Of the 69.9 billion dollars turned out by the factories in the United States in 1929, 21.8 billion dollars went into other factories in the form of raw materials. This statement needs some explanation. Coal is obviously a raw material, but it is not subject to further fabrication. However, iron ore, in contrast with coal, is raw material for steel mills. The iron ingots which come from the smelter and which are the finished product of the smelter constitute this raw material. The steel sheets that come from the rolling mill are raw materials for the automobile-body manufacturers, and even the completed bodies are only "parts" to the automobile assemblers. This is illustrative of the progress of the very large number of products from one factory to another. As just stated, one-third of the products of the factories go to other factories. Not only that, but of the 47.2 billion dollars which the manufacturers expend for raw materials, 17.3 billion dollars come from some middlemen. Chief of these are industrial distributors.

With a large number of products there is no marketing problem such as we recognize with goods that go to the individual con-

sumers. When Goodyear Tire & Rubber Co., Inc., entered into a contract with Sears, Roebuck and Co. to supply the latter with automobile tires, the transaction was handled by the presidents of the two firms. Exchange of a few letters and a few long-distance telephone calls to make final adjustments in the contract constituted the whole selling campaign for goods that ran into millions of dollars. This is typical of similar contracts for supplies, except that more was involved than in most contracts. No real marketing problems are involved in buying and selling raw materials, such as are found in connection with distributors of manufactured goods, which are sold in small quantities to be used by many individuals. But this is by no means a complete picture of industrial marketing. The factories require a very large number of supplies in addition to the material which goes into the products which they manufacture. Lubricants, paints, oil, hand tools, motors, power-transmission machinery, and a host of other items are required to operate a factory. These frequently require a greater variety of selling effort than goods that pass through retail channels.

The elementary texts on marketing have little to say about industrial goods It is assumed that this is a highly specialized and more or less technical field. Both assumptions are correct. However, it is sometimes inferred that most of the industrial market is covered by selling direct to factories, transportation, and construction companies, which is far from true. The business censuses have lumped the sale of industrial goods in with wholesaling, where such goods are sold through distributors. This produced the incongruous effect of a wholesale business considerably in excess of retail sales for the country as a whole.

When a wholesaler of foods sells to hotels, dining cars, and ships, in strict logic and under the commonly accepted use of the term, he is not doing a wholesale business. He is rather what we like to designate as an "industrial distributor." It is true that many wholesalers who sell primarily to other distributors also act as industrial distributors in this sense. When these wholesalers reported their sales for the census, they did not indicate what part was for resale and what part for industrial consumption Wholesalers of foods, drugs, hardware, coal, and other consumer goods also sold to large-scale consumers and to that extent were industrial distributors.

Industrial Distributors.—The industrial distributor as a type of merchant does not handle consumer goods but sells only to manufacturers or to other large operators; he has little resemblance to the class of *wholesalers* generally recognized by that term. The industrial distributor buys from manufacturers and sells to those who consume the goods so bought in the course of their business. With a very few exceptions these goods do not enter into the finished product but are used up in general operations. Hand tools, conveyors, lubricants, building and electrical supplies, and detergents and other cleaning materials are important items in a long list handled by industrial distributors.

While electric motors and materials-handling equipment are very generally sold by industrial distributors, no raw materials, fuel, or primary power equipment are included in their stocks. Such supplies, including products bought for further processing, are sold direct, or through brokers. These products obviously could not be stocked by a middleman. This is the very service that makes many industrial distributors indispensable to continuous factory operation. ' If the power engineer suddenly discovers that his supply of light oil is exhausted, or if the foreman of the pressroom of a large publisher finds that he has failed to replenish his supply of "dryer," a costly shutdown may be necessary if there is no industrial distributor available with a ready supply. As a general rule, such items suffer loss through deterioration if kept in stock too long. A year's supply is usually damaged before the last is used up and, besides, storage space is expensive.

Manufacturers sometimes act as industrial distributors for allied but noncompeting products. For example, printing-type houses sell printing presses, printing inks, wood type, "furniture," galleys, and type cases for other manufacturers. These items are illustrative of hundreds, if not thousands, of products that are bought at long intervals or in small quantities, like sweeping compounds and small motors. The need may be urgent, but the value involved small.

Firms manufacturing fire-fighting apparatus is another example of processors who act as industrial distributors. They sell chemicals, hose, firemen's boots, gloves, helmets, smoke masks, and many other items used by firemen. Most such goods are

bought so infrequently and in such small quantities, especially in the smaller cities, that the producers could not afford to send salesmen to call on all the fire departments in more than 10,000 cities and towns.

Where the factory also acts as a sales agent—or industrial distributor—it is now common practice to organize a separate company to take charge of sales. General Foods Sales Company and the Borden Sales Company are selling agents for the parent companies and owned by them; so is the American Type Founders Sales Company, which is owned and controlled by the American Type Foundry, Inc. Many others might be named.

There are many services offered by industrial distributors which are of value to their customers, the manufacturers. One of the most valuable of these is that they employ salesmen who are generally technical or semitechnical men. They can explain new products and have time actually to do a real selling job. As compared with a salesman for a wholesale grocer, the industrial salesman can spend much more time with each customer. He does not need to call so often and is not required to make so many calls a day.

This has put industrial distributors in the position of sales organizations for many manufacturers; this applies rather to specialties than to general shop supplies such as waste, sweeping compounds, towels, and other staples of the shop and factory. For a large part of his supplies, the industrial distributor does not represent any one manufacturer but buys where he can get the most for his money. There are not many of them; 2,000 at most in the whole country. But as $75,000 is regarded as the minimum capital for successful operation, it is evident that the magnitude of this business is large.

With trade-marked items, like motors, tools, lubricants, materials-handling equipment, etc., the makers usually advertise in industrial publications, and this advertising is merchandised to the distributors The suppliers often furnish printed inserts for the catalogues of their agents. When a prospect is visited and quotations made, the distributor notifies the manufacturer, and he in turn protects his representative if the prospect comes to him direct. At least that is the theory, and all but a few chiselers live up to it.

In the case of such products as waste, excelsior, lumber, and other items handled primarily in bulk and not trade-marked, it is largely a matter of price and convenience in shipping. The market is inelastic, and there is little that fabricators can do to assist distributors with sales.

Who Buys from Industrial Distributors.—The chief source of supplies which are consumed by manufacturers but which do not constitute a part of their finished product is the industrial distributor. There is no fixed practice in regard to buying these supplies. One factory will buy direct from the manufacturer, while an even larger factory and larger user will find it convenient and profitable to buy from a distributor. In 1936, the writers conducted a survey in this field, covering 357 manufacturing plants, which purchased 51 million dollars' worth of industrial supplies during that year. This survey revealed that the following are purchased as often from industrial distributors as from the producers:

Abrasives.
Belting.
Electrical supplies.
Heavy hardware.
Machine tool accessories.
Maintenance supplies.
Motors.
Portable electric tools.
Power-plant supplies.
Small tools and hand tools and building supplies.

When purchasing electrical supplies, 20 factories bought from distributors to one which bought from a manufacturer. Ten times as many factories bought small tools from distributors as bought them direct. About one-third of the factories purchased their abrasives direct from manufacturers, while two-thirds depended upon the distributor. Sixty-eight per cent of belting, 75 per cent of power supplies, and 80 per cent of the building supplies were also bought from distributors.

The industrial distributors are located for the most part in the large industrial centers and are extensive operators. It is estimated that $100,000 constitutes about the minimum annual sales for successful operation. Their customers include the largest as well as the smallest factories, and the buyers who place orders with them are given a very great variety of titles.[1]

[1] The following titles are enumerated by industrial buyers. There is no unanimity nor does any one of the following titles indicate that the man has a more important position as purchasing agent than some other title:

The industrial distributors employ salesmen the same as other large middlemen. It is evident, however, that the number of customers in most instances will not be so great as for institutions selling to the retail trade. Orders are much larger and margins smaller. Furthermore, influences such as the ability to make prompt delivery, advantageous transportation rates, reciprocal buying. and the general dependability of the firm as well as the ability to meet competitive prices are the principal factors in making sales. A very considerable amount of their business is transacted by telephone, and immediate service is frequently imperative.

Industrial Goods Sold Direct.—Nearly 60 per cent of the goods in the industrial field are sold direct. While classification lines are not sharply drawn, the following may indicate the chief types of products so sold:

1. Heavy machinery, especially that of original design.
2. Basic materials subject to frequent price fluctuations; copper, sugar, flour, rubber, and petroleum.
3. Supplies bought in very large quantities such as railway ties and spikes, telegraph poles and wire, pig iron, tin and steel plates, and newsprint.

It is evident that such equipment as the following must be specifically designed for a particular job and perhaps also to fit a general scheme: marine engines, railway locomotives and cars, perfecting printing presses and presses for heavy stamping and die cutting, power-plant equipment, as well as looms and all but the smallest boats. Such purchases as these must all be made under contract and definite specifications.

President	Chief engineer	Tool engineer
Vice-president	Department foreman	Metallurgist
Treasurer	Millwright	Owner
Secretary	Brew master	Assistant treasurer
Purchasing agent	Assistant superintendent	Corporation clerk
Superintendent	Foundry superintendent	Shop foreman
Manager	Machine supply superintendent works manager	General lubricating engineer
Partner		
Maintenance mechanic	General storekeeper	Power engineer
Chief electrician	Electrician	Construction superintendent
Foreman	Chemical engineer	
General manager	Janitor	Plant supervisor
Office manager	Master mechanic	Engineering and maintenance manager
Assistant purchasing agent	Plant engineer	

Sometimes the specifications are given in terms of work to be done. An engineer-salesman for Ingersoll-Rand, in selling large-capacity pumps for water supply or drainage, avoided direct competition by quoting prices on equipment installed, having a guaranteed rate of operation and maximum cost per unit of work done. While this threw the burden of designing upon the manufacturer, it gave him an opportunity to adapt stock machines to the required equipment. This usually proved more profitable than supplying machinery designed and specified by someone who disregarded the firm's stock production. This method of sale has also proved popular in export business.

Another salesman of engineering experience sold a large lumbering company, of the state of Washington, a fleet of trucks on a comparison of the cost of transporting the logs and lumber by truck rather than by horse-drawn vehicles.

In goods subject to frequent price fluctuations, the chief task of the salesman is to be a market analyst who can accurately forecast business conditions. His buyers, having little or no preference in products, will usually follow the salesman who can best advise them when to lay in for future needs and when to buy only for present requirements.

Supplies bought in large quantities, such as those mentioned, require a vast amount of storage space and are often bought with provision for delivering specified quantities at different times and places.

Political divisions of the country constitute a large part of the industrial market, especially for this class. The Federal government, states, counties, and municipalities are constantly buying equipment for the fire and street-cleaning departments as well as sewer and water pipes for replacements and developments. Blank books, typewriters, safes, oil, and coal are some of the supplies bought regularly.

The shrewd buyer of industrial goods, as well as all others, assists the seller in keeping down his sales costs. This is contrary to an old idea which regarded any inconvenience to the one from whom purchases were made as advantageous. One of the great public utilities, in submitting its requirements for coal, asked bids for a year's supply:

1. Delivered at once.
2. Delivered as needed.

3. Delivered in stated quantities each month.
4. Delivered at the sellers' convenience, but one-fourth of the required amount to be delivered each quarter.

The idea was to give the sellers an option so flexible that they could choose the way most economical for them. The result was a worth-while saving.

Collateral Advertising.—Armco iron, manufactured by the American Rolling Mill, is a rust-resisting metal which is sold almost wholly for further fabrication. It is used in making culverts, washing machines, mechanical refrigerators, water pails, garbage cans, caskets, and a multitude of other products. In spite of the fact that Armco is not sold to the consuming public direct, the manufacturer has done a very extensive job of consumer advertising. The obvious purpose of this advertising is to bring pressure on those who buy the product for further fabrication. There is nothing unique about that. Molybdenum steel, Timken roller bearings, Fisher bodies, stainless steel, Toncan steel, and several other products have been advertised to the consumer market for the same purpose.

Armco iron has gone considerably further than the others in that it has succeeded in inducing the manufacturers to whom it sells to mention the fact that Armco iron is used in their washing machines or whatever other product it might be. This advertising was computed to be about ten times as great in extent —measured in dollar volume—as was the Armco advertising; that is, for every $1,000 that the American Rolling Mill spent, those who bought its products spent $10,000 to advise their customers that they used Armco as a foundation metal.

This was not just a happy accident. Bennet Chappel, who was in charge of the Armco advertising, employed a small salesforce to go to the customers of the mill and sell them on the advantage of mentioning Armco iron in *their* advertising. This was so successful and followed through to such an extent that some of the leading retailers of the country, including John Wanamaker, also mentioned Armco in advertising products which were made from it in whole or in part.

The advantages of this advertising were striking. First and foremost, a fabricator who had been advertising his use of Armco iron found it very difficult to discontinue it and substitute some other make. Further, it put fabricators who did not use Armco

at a serious disadvantage in the consumer market. Many a retail sale has been lost or made according to the answer to this question of the consumer: "Is it made of Armco iron?"

G. M. Verity, chairman of the board of the American Rolling Mill, christened the publicity given his product by his customers as "collateral advertising."

Scope of Technical Goods.—As we have used the term "technical goods" here, we refer to technical consumer goods—as stated above, those that are bought under the advice and direction of a professional adviser. In the industrial field a large part of the goods which are not raw materials are technical. But there the buyer is probably also a technical man and able to rely on his own judgment. This is not true of general consumers who, in the aggregate, buy huge quantities of goods, the nature of which they do not understand and the use of which they would seldom undertake except on the advice and with the directions of an expert.

Drugstore products constitute many items of this class. They vary all the way from medicines, of which the consumers do not know the name or the purpose, to such common household remedies as iodine and castor oil.

In the case of the automobile and its supplies, the expert's advice is a strong influence but is accepted as coming from an artisan rather than a professional expert, hence is of far less prestige and, consequently, less influential. There is very little assurance on the part of the consumer as to which is the most satisfactory gasoline, the longest wearing tire, or the best lubricant. He is generally open to suggestions, or, if not, has accepted the advice of the one who sold him the car, relying on him as an authority.

What make of car to buy is sometimes decided by experience, in part by advertising or by the reputation of the manufacturer, but perhaps most of all by the ability of the salesman and by the trade-in allowance held out as an inducement. Once the car is bought, replacement parts, such as spark plugs and piston rings, are accepted about $99^{44}/_{100}$ per cent on the recommendation of the mechanic at the garage. This does not result from confidence in the mechanic's judgment but is done with the idea of placing the responsibility on him. If the new part fails to give satisfactory service, there is no remedy if the buyer

has dictated the kind. But the mechanic is supposed to stand back of his recommendations.

Electric supplies and equipment offer a narrow choice, but either Westinghouse or General Electric is regarded as standard and is accepted on the maker's reputation. The mechanical refrigerators are still sold, rather than bought, and the salesman has great influence. These are technical, as a buyer would not rely on his own judgment in making a selection, especially for the first one purchased.

A relief for headache, poison for the ants in the yard, "something for a cold," and a remedy for sunburn are accepted on the druggist's advice. But the brands of cigarettes, toilet soap, razor blades, and shaving cream, as well as most cosmetics, are items for which the druggist's advice is neither asked nor taken if proffered.

The architect at one time was the final authority on all materials that went into the new house. But now if he does not specify Anaconda copper, Hoffman valves, Johns-Manville insulation, and Fenestra window sash, he is at once on the defensive and explanations are demanded.

The tailor, the milliner, and the clerks in such stores as Altman's and Marshall Field's all have considerable prestige when advising customers as to the clothing they should wear. This is true of salespeople to such an extent that the management of one of the largest chains of men's clothing stores in the country engaged a color and design expert to give his salesmen a course in fitting apparel to the wearer. These stores wanted their salesmen to be able to advise customers expertly.

In the grocery store—the store most often visited—the freshness of the vegetables and how recently the bread has been baked is about the only type of information relating to goods that clerks are asked to answer. And conversations with more than 600 grocers incline the writers to believe that those who sell foods know so little about them that their advice should be generally disregarded on most products.

Analysing an Industrial Market.—There is quite as much need for market analysis in the industrial field as in the consumers' market. Those who produce raw materials must know how present supplies compare with past seasons; what new uses, if any, will increase the demand; and what substitutes may tend to

reduce the demand. Coal, iron ore, and lumber are largely sold to the large users on contract, so that the willingness or reluctance of these customers to enter into new commitments is indicative of future business. Then there are the futures markets in the commodity exchanges that indicate a probable trend for such products as cotton, grain, silk, rubber, leather, and industrial metals other than iron.

Unfortunately, agricultural producers are not able or not willing to be guided by such forecasts, however dependable they may be. The one-crop farmer does not want to change his business so that when there is a low price and a heavy carry-over of cotton, for example, he can raise some other crop. He knows very well that there is an oversupply and that the price will be ruinously inadequate, but he hasn't the equipment, the knowledge, or, in a large number of instances, the enterprise to change to a more profitable crop. So he stolidly plugs along hoping that somehow he will "get by." In recent years the government has stepped in and distributed money from the United States Treasury to help out these improvident farmers. In its lavish distribution of the people's money to special interests in agriculture, the rich and poor have benefited alike. One extensive rancher received $100,000 in one year from a profligate government for cooperating in the Department of Agriculture's crop-control program. Where such conditions and such philanthropy prevail, market investigations and analyses depend too much upon political prognostications to be at all accurate.

The manufacturer who furnishes materials for further fabrication may be faced with a very difficult problem of forecasting sales, but he will have a large supply of accurate statistics available as to the number and location of his customers and their ability to consume his product. He will also know who his competitors are and what are their capacities to produce. It is obvious that, as the number of different industries served increases, market analysis becomes more difficult and more important. For example, the pulp and paper manufacturers have a market that changes very little from year to year. They will have about the same number of customers, who buy in quantities that fluctuate within narrow limits. Prices also tend to vary only slightly from one season to another. Business conditions will help or hinder both prices and sales. Aside from business fore-

casting and a constant checking of the supply materials used in their manufacturing, the market analysis in the paper industry attempts little. Sales promotion is directed largely at competition rather than at creating new business.

With such products as Cellophane, Bakelite, galvanized sheet steel, lubricants, glue, and solder, which are used in a large number of industries, the market will depend on so many things that a careful and extensive analysis at frequent intervals will be necessary to keep all sales possibilities covered.

The manufacturer of parts, such as carburetors, roller bearings, axles, watch cases, and hatbands, is strictly limited by the industries to which he sells. Market analysis to him is largely a matter of checking on competitors and a study of conditions which affect the sale of the products to which he contributes parts.

Some products may be treated either as industrial or as consumer goods. A fur-cleaning compound is an example. The manufacturer is undecided whether he should restrict sales to fur and department stores or whether a consumer market could be created which would ultimately be more profitable. Two questions must be answered before a definite decision can be made: First, would the ultimate sale be any more if consumers were cultivated? Second, could a consumer price be made attractive which would cover the added cost of selling for home use rather than to those who commonly do the cleaning? This requires an extensive and difficult analysis that will be expensive, perhaps so expensive that securing a dependable answer will be accomplished by one or two test campaigns.

The method of analyzing an industrial market follows the same general pattern as that of analyzing a consumer market. Statistical data are much greater in amount, so there will be less need for a market index, except with new products to be used in a wholly new way like Cellophane or Bakelite, which are replacing many other less satisfactory materials. The industrial market is less responsive to sales-promotion efforts than consumer markets.

The Commodity Exchange.—One market agent used extensively in industrial markets, but not well adapted to the consumer market, is the commodity exchange. This institution has developed out of or along with such organizations as the Chicago Board of Trade, the chief purpose of which is to provide a futures market for grains. It differs from the various stock exchanges in

that the latter are organized to provide an immediate cash market for stocks and bonds. The principal purpose of a futures market is to provide manufacturers or others handling large amounts of raw materials with an opportunity to hedge against loss through change of price within specified periods of time.

The following description of the Commodity Exchange, Inc., portrays the general pattern of most of the exchanges and may be regarded as typical:

> This is a membership corporation organized under the laws of the State of New York. If was formed in 1933 as a result of the consolidation of the New York Hide Exchange, The National Metal Exchange, The Rubber Exchange of New York, and The National Raw Silk Exchange.
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> The formation of the consolidated exchange marked the most recent attempt at conducting futures trading in several commodities of an entirely different nature on one floor and under a common authority. At the time of the consolidation, Commodity Exchange, Incorporated, maintained futures markets for crude rubber, raw silk, hides, silver, copper, and tin. Trading in silver futures was discontinued in 1934 following the nationalization by the United States government of silver held in storage in this country. Since the inception of Commodity Exchange, Incorporated, futures markets in lead and zinc have been added.
>
> Memberships in the Exchange are owned by individuals who represent a cross section of the rubber, silk, hide, and metal trades and most of the well-known brokerage and commission-house firms with branch offices and correspondents in practically every important city in the United States and abroad. Among the trade members are leading producers, merchants, and manufacturers, spread over 20 states of the Union and 19 foreign countries, including such distant places as Egypt, India, China, and Japan.
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> Only individuals are eligible for membership on the Exchange. A partnership, if a general partner thereof is a member of the Exchange, or a corporation, an executive officer of which is a member, may have their business transacted at the rates of commission prescribed for members. A member cannot confer the privilege of his membership upon more than one firm or corporation at any one time.
>
> The membership of the Exchange is divided into six groups known as the Rubber Group, the Silk Group, the Hide Group, the Metal Group, the Commission House Groups, and the Non-Trade Group.
>
> The Exchange is managed by a Board of Governors of 28 members elected from the Hide, Metal, Rubber, Silk, Commission House groups

—five members from each—and three members from the Non-Trade Group. The officers are the President and five Vice-presidents, who head the respective Hide, Metal, Rubber, Silk, and Commission House groups, and a Treasurer. The officers are members of the Board of Governors and are included in the 28 members mentioned above.

Fair and ethical conduct on the part of the members of the Exchange is assured by strictly enforced disciplinary rules and by the careful supervision exercised by the Board of Governors both directly and through several committees appointed by the Board. There are several so-called "Trade Group Committees" which supervise the affairs of their respective commodities, regulating such matters as the mechanics of delivery, quality requirements, etc.

In addition to providing facilities for the conduct of futures trading under established rules and regulations, which are embodied in the by-laws and rules, another important function of the Exchange is to acquire and disseminate useful information concerning the commodities for which the Exchange maintains a futures market. For this purpose, a statistical department has been set up which assembles and compiles statistical information and supervises its distribution to members and nonmembers of the Exchange through the medium of a Daily Market Report, a Weekly Survey, and Monthly Statistical Supplements and Charts.

Hedging and the Exchange.—It is supposed that the reader understands in a general way what a hedge is and how it works. However, it may be interesting to follow step by step a hedge for a tire manufacturer used for protection against loss through price fluctuations of crude rubber. In order to be insured against interruption in his manufacturing processes, the larger tire manufacturers keep at least three months' supply in sight. Some of these manufacturers own their own rubber plantations, but none produce all that is needed. Suppose one of these companies buys 1,000 tons of crude rubber from an exporter in British Malaya on the basis of the prevailing New York price of 15 cents a pound.

In the past, the price of rubber has fluctuated through wide variations, often influenced by manipulation or governmental regulations. In 1910, it reached $3 a pound; in 1932, it dropped to 2⅝ cents. In 1926, it varied from over $1 to less than 10 cents.

The amount involved in 1,000 long tons (2,240 pounds) at 15 cents a pound is $336,000. Suppose that by the time the rubber

arrives the price has dropped to 12 cents. That represents a sizable loss. But this buyer has hedged; that is, at the time he gave his order for the rubber, he also sold a futures contract for an equal amount, the date of the contract to fall due shortly after the rubber is expected to arrive. Then, as the rubber goes into manufacture, the prevailing price is 12 cents. The hedger can buy at that price, plus commissions, to cover his first contract to sell at 15 cents. So the profit on the futures contract approximately balances the loss occasioned by the drop in price.

The original contract to sell was not a speculation It was a hedge that relieved the seller from the hazards of speculating that there would be no price change. This was selling "short"; that is, it was a contract to sell something that the seller did not have.

If the change in price had been in the other direction, the buyer might wish that he had not hedged. He would not then be under contract to buy 1,000 tons of rubber at 18 cents to make good on his futures contract. He would have had a nice profit on his rubber; but that would have been speculative profit, and most modern manufacturers regard it as better business to avoid speculation. They can, as in this case, be insured against loss from *fluctuating prices for approximately the cost of the commissions.*

Hedging and Raw Silk.[1]—In considering the uses of the raw-silk futures market as a hedging instrument for the silk-manufacturing industry, the subject must be divided into two parts—the weaving or piece-goods industry and the knitting or hosiery industry. The weaving industry's picture has changed completely in recent years as a result of the expansion in the use of rayon, which has supplanted silk in many types of goods. From being the consumer of 60 to 75 per cent of the raw silk used in this country, ranging as high as 30,000 bales or even more a month, it has fallen to a scant 25 to 30 per cent of the total, seldom exceeding 10,000 bales a month. Some 20 or 30 years ago, the silk-weaving year was divided into two seasons, spring and fall. Orders were taken 6 months in advance and business was done strictly against orders. This, of course, required no hedging. With the expansion of the industry, however, production of goods for sale at a later date, such as the weaving of large quantities of gray goods in September and October, which will not be sold until 2 or 3 months later, became the order of the day.

[1] From "Commodity Exchange, Inc.—Its Functions and Activities."

Under these conditions it was possible for the silk futures market to perform a needed service by eliminating the risk undertaken by a manufacturer in purchasing raw silk sometimes as early as June or July to be woven into goods in September and October and then sold in, say, January or February, at which time raw-silk prices might have declined to an extent which would ruin the manufacturer. Unfortunately, there was another element—the style element—entering into the picture which sometimes entirely vitiated the hedging operation.

Today manufacturers of broad silks are operating and producing almost entirely against orders. So long as this procedure is followed there is little reason for the broad-silk manufacturer to use the raw-silk futures contract except on a merchandising basis as a means of purchasing his raw silk to better advantage, as will be explained later.

Hedging by the Hosiery Manufacturer.[1]—The second division, which is today the bulwark of the silk industry abroad, as well as in this country, is the hosiery industry. It is true that raw silk represents only approximately 10 to 15 per cent of the cost of finished stockings. It is true, consequently, that a moderate fluctuation in raw-silk prices, such as 20 to 30 cents a pound, is not a ruinous matter to a hosiery manufacturer. Nevertheless, charts of hosiery prices and of raw-silk prices show very definitely that there is a parallel movement between the two. So long as there is a close paralleling of the price movements and an absence of the style factor which is present in the broad-goods industry, a hosiery manufacturer can hedge his raw material at whatever time he makes the sale of his finished product and be assured that the price he receives for his hosiery will be in fairly close relationship to the price of raw silk prevailing on the day when he makes his sale of the finished goods. It is therefore possible for a hosiery manufacturer to conduct his business so as to eliminate or reduce the risk of loss which is always inherent in the fluctuations of the raw material.

The use of hedging facilities by a hosiery manufacturer is made even more desirable because of the extent of the risk which he undergoes. In the first place, most hosiery manufacturers make a policy of being covered on their raw-silk requirements for 2 or 3 months in advance, and this represents 2 or 3 additional months

[1] *Ibid.*

in which they are taking the risk of market fluctuations. In the second place, in order to be certain of securing the specific silk of the high quality, produced only by a few dealers, which they require, it becomes necessary for some manufacturers to purchase at times as much as 8 to 12 months in advance, thereby constituting an even more extended period of risk. It is true that sometimes this silk can be bought on a "Nariyuki" basis, which is somewhat similar to the "on call" system in cotton, but not all of it is purchased that way. In addition, hosiery manufacturers as a whole will at times be carrying a large inventory of finished and unsold goods, which in the event of a market decline can be subject to a substantial loss in so far as the raw-silk content of the product is concerned.

The Dealers' Use of the Futures Market.[1]—However, besides the elimination of the risk of market fluctuations during the time required for processing and even longer in most cases, there is a merchandising angle to hedging which is probably one of its major attractions and benefits to the manufacturer. At certain times of the year, owing to pressure in the spot market which is not reflected in the futures market, it happens, say one or two or three times a year, that spots sell at an attractive basis as compared with futures. For example, the equivalent of the base grade used on the futures exchange can at times be purchased as much as 5 to 10 cents a pound under the quotations in the futures market. It is important to bear in mind that at such times the manufacturer, by purchasing spots or actuals, for forward delivery from his suppliers and by hedging them by concurrent sales of futures on the Commodity Exchange can create a situation where for the greater part of a subsequent period he can, by lifting his hedges, secure a price on his material 5 to 10 cents or even more a pound under the price prevailing on the day when he lifts his hedges. At such time, when it is possible to purchase spots attractively compared with a futures market, it would be good policy on the part of the manufacturer to anticipate his actual requirements for a long period ahead and hedge the purchase in the futures market in order to be sure of the saving at such times as he takes upon himself the risk of the material by lifting the hedge. This, incidentally, is the prime function of the futures market for the dealer in actual raw silk.

[1] *Ibid.*

Other Functions of the Commodity Exchange.—The above paragraphs cover most of the important points eliminating speculation by the use of hedging. In addition to futures sales, the commodity exchanges prepare and adopt standards and classifications of grades which greatly simplify buying and selling. In case of disputes there is a competent and impartial committee which investigates and awards compensation where injustices have entered. This, to an extent, takes the place of expert testing when goods are bought.

It should be remembered that, when futures purchases are made, the goods are in warehouses licensed by the exchange. The uniform warehouse law covers the issue of these receipts and assures their strict validity.

The principal commodity exchanges of the country and the items each deals in are as follows:

Chicago Board of Trade: wheat, corn, oats, barley, rye, cotton, pork products.
Minneapolis Chamber of Commerce: wheat, oats, rye.
Duluth Board of Trade: wheat, rye, flaxseed.
Milwaukee Chamber of Commerce: wheat, corn, oats.
St. Louis Merchants' Exchange: wheat, corn, oats.
Toledo Produce Exchange: wheat, corn, oats, clover, alsike, timothy.
New York Cotton Exchange: cotton.
New York Coffee and Sugar Exchange: coffee, sugar.
New York Mercantile Exchange: butter, eggs.
New York Butter and Eggs Exchange: butter, eggs.
New Orleans Cotton Exchange: cotton.
Chicago Butter and Eggs Board: butter, eggs.

It was only a few years ago that all transactions on exchanges and boards of trade were looked upon with suspicion and worse. Numerous laws and statutes were enacted to curtail or prohibit short selling. It was commonly stated that all the wheat grown in the country was bought and sold on the Chicago Board of Trade "twenty times over" and that the expense of all that trading was added to the cost of marketing the wheat and so came out of the producers and consumers.

Probably the exchanges could not operate if it were not for the speculators who trade on their floors. These men are specialists in their various fields, and it is their extensive and intimate knowledge of the conditions which govern the production and sale of the item in which they specialize that makes a futures

market possible. The remuneration they receive for their studies and investigations is the money they are able to make in buying and selling. They know their markets so can trade more wisely than others less familiar. But the transactions in which they engage reveal their judgment concerning future developments and so may be valuable guides to other buyers—like manufacturers—who have neither the vast information nor the same ability to discover the significance of events that the specialist possesses.

The authors see no immoralities in this kind of speculation. It does not differ in kind or intent from many other ventures which pass without criticism. As we see it, an investment is loaning the use of capital for a stipulated amount. It is not expected that there will be other returns, as in the purchase of government bonds. A business enterprise plans to make money by being remunerated for a service. Often that service is the assumption of a risk which benefits those who participate. Insurance risks are simple examples.

A speculation is assuming a risk where a profit is expected to result, not from the efforts of the one who assumes the risk, but from the combined efforts of a group. Buying and holding unimproved real estate in the hope that the value will increase is an example. One who buys stocks in the hope that they can be sold later at a profit also speculates. A gamble is the assumption of a risk that may bring a profit, but, if it does so, it will be because someone else lost, as in betting.

To our minds, traders on the various exchanges are speculators from whose operations the public may benefit. This, however, is aside from the plan or aim of the speculator.

It must not be supposed that a large part of the country's manufacturers are accustomed to hedging. The vast majority buy as they need, increasing their surplus stock as they think prices may increase and buying from "hand to mouth" when they anticipate falling prices. They consult frequently with the salesmen who supply them and take their advice seriously.

Industrial Salesmen.—Aside from advertising in technical and industrial publications, the opportunities for manufacturers to aid their distributors in the hardware and fabrics fields is narrowly limited and so depends to a great degree on the ingenuity of the sales executives. Writing paper has been extensively advertised.

The Hammermill Paper Company works out office systems adopting different colors to different blanks. These are advertised to the trade and so help to stimulate sales. Some of the other paper houses also advertise their brands to consumers, but this is not regarded by wholesale or industrial distributors as being particularly helpful to them. They feel that the manufacturer by this advertising is going over their heads to printers and by so doing reduces the prestige and influence of the distributor. The paper mills are asked to furnish paper without cost to the distributor for a limited amount of sampling and for his catalogues.

In the case of unidentified merchandise there is little beside price that is considered. Promptness of delivery, low transportation costs, and the certainty that there will be available goods when wanted are secondary influences. Brokers of raw materials and bulk goods operate in the industrial field, but they sell little else.

Industrial selling covers a far wider list of activities than is usually found in the consumer market. Most salesmen in the industrial field are specialists, many of them trained engineers. Even the girl at the order desk for an industrial distributor will be familiar with a staggering list of technical terms, which she catches without repetition over the wire. She may not know anything about the principles of salesmanship, but she is a valuable employee and one whom it is hard to replace.

In such industries as sugar, flour, cotton fabrics, and cement, salesmen may also work primarily from their desks and not intrinsically be any better salesmen than the girl mentioned in the preceding paragraph. Prices and price trends are what they discuss most with their customers. They know crop conditions for the whole world. They know, or should know, the carry-over, the trends in consumption in their fields, and the immediate amounts in near-by storage.

The road salesmen, those who go out to "drum up business," differ from those just discussed in that they are able salesmen first and technicians afterward. Oftentimes the amount of their sales runs into thousands of dollars, and they must know the art of selling as well as the technicalities of their products. Often an industrial salesman will be called upon to present his proposition before an interested group, so he must be an effective speaker.

One of the most successful salesmen of trucks to the lumber industry of the Northwest was a real authority on log and lumber transportation. He knew exactly what it cost to keep a team of horses and the amount of work they could do in ton-miles compared with an automobile truck. Another salesman who handled power equipment seldom bid on a particular machine according to specifications. It was his contention that that kind of selling reduced his firm to the level of manufacturing machinists. He preferred to bid on equipment that could be guaranteed to perform a given task at a specified range of costs. It was a distinct advantage in bidding and permitted a guaranty of performance which was attractive to the buyer. Even where the sale is according to adopted specifications, the salesman must be an engineer for special equipment.

The writer recalls going out to sell fire-fighting equipment for one of the country's leading manufacturers of firemen's equipment and supplies. After a few hours' talk with a salesman and a rather hurried trip through the showroom, he was started out with a 200-page catalogue of apparatus, little of which he could recognize by name, and a satchel full of samples of hose and a few more or less new tools. That any sales were made was doubtless because competing salesmen were little better equipped. Anyway, selling fire chiefs and members of the Fire and Water committees of the smaller cities was largely a matter of entertainment. That was 25 years ago, and the methods then used contrast strikingly with those of today.

What Strategy Will Enlist the Expert.—Doctors, dentists, architects, and even plumbers are deluged with advertising, samples, and personal solicitations to induce them to recommend *A*, *B*, *C*, or *D*'s products to their patients and customers or, failing in that, to make some statement that may be interpreted as a testimonial. By all but a few of the unethical practitioners, the greatest care is taken to protect the high standing of the profession by refusing all such support except for products tested by their approved laboratories and sanctioned by their professional associations. A legitimate and sometimes successful way to reach physicians was worked out by General Foods a few years ago in promoting Postum as a hot drink to be served with the school lunch. Doctors who had known and recommended the product were willing to give guarded testimonials to be published

only in the recognized magazines for physicians, nurses, and hospitals. While there was an extensive and aggressive consumer campaign running for Postum at the same time, the advertiser did not make the serious blunder of trying to influence the professional men and women through popular magazines.

The idea of the campaign to physicians and nurses was to familiarize them with the product so that they could answer intelligently, and it was hoped sympathetically, any questions about the product that might be asked by parents. A similar campaign was also run in the educational and pedagogical publications for the same purpose, except that the advertisements were directed toward teachers and school supervisors.

The plan works best where the product is one which the professional man can use in prescribing to his clientele. The physician may welcome a new liniment which will relieve him of mixing one for himself and especially relieve him of the embarrassment of prescribing "Sloans," "Ben Gay," or "St. Jacob's Oil." The patient could go to the drugstore and get these for himself without a prescription. To prescribe them is both unprofessional and poor business.

Architects have made the practical suggestion that those who send them descriptive matter of materials to be recommended to clients should prepare it in a size and form that could be easily filed.

The right selection of salesmen is one of the most important considerations in marketing technical and semitechnical goods. Reference has already been made to the engineer as a salesman. It is possible to secure the services of properly accredited dentists to sell dental supplies. Not a few physicians who have earned an M.D. may be converted into salesmen to call on hospitals and doctors. One large manufacturer of printing inks induced the foreman from one of the best known pressrooms in the country to go out and sell inks. He was never a "go-getter" salesman; he was not that type. But when he introduced himself in the office and asked if the pressroom had had any trouble with ink recently, he was almost always introduced to the boss pressman.

This type of salesman picks up so much information in going his rounds that he is always a welcome caller and usually one who gets a full share of business. Such salesmen are difficult, but by no means impossible, to find. The nature of their selling is such

that they make but a few calls a day. Naturally, they are expensive; but where they can be secured, and where infrequent calls are sufficient to retain the business, they help to solve a difficult problem.

Professional Animus.—No matter how worthy the product, if it does not fall in with preconceived notions of the professional men or fit into their general routine, they may refuse to have anything to do with it. When the Hoffman valve was perfected, those architects who could be persuaded to examine it admitted that it was a good thing. The usual attitude was revealed by one kindly old soul, who admitted that he *ought* to remember and recommend it. "You know," he said, "I have so many items to consider, of so much greater importance, that I can't afford to take time to sell my clients an 85-cent valve instead of a 50-cent valve." There was nothing left for the manufacturer to do but go straight to consumers with his advertising. Many architects resented this, but the advertising put so much pressure on the architects that they capitulated.

The central idea of the American Medical Association, if one may judge from the expressions and acts of some of its leaders, is strictly closed shop. Doubtless it would add to the physicians' income if drugstores were not permitted to sell cough lozenges, lotions for chapped hands, or creams for sunburn without a doctor's prescription. That, however, is a form of regimentation that the American public will not submit to for a long time to come, if ever. When chided for their narrow attitude, doctors answer by pointing to the advertising copy that many of the proprietary medicines persist in using and scathingly inquiring: "Do you want your physician, or the great medical profession, to be a party to that?" And that is the other side of the question.

Industrial Advertising.—Most industrial advertising is radically different from consumer advertising. There is no emotional appeal, nothing for dealer effect, and a minimum of attention devices. A large part of industrial advertising is informative and of the reference type. It is factual, often of the catalogue style, and for the most part deadly dull and uninteresting. Those who write it maintain that that is the way it should be for most campaigns. They say that buyers are looking for facts and are impatient with attempts to make the copy entertaining.

Factual data, tests, testimonials, and illustrations that actually *illustrate* are the materials from which most industrial advertising is composed. Little of it is expected to make direct sales, except in emergencies. Aside from acquainting readers with the advertiser's principal products and with his location and ability to carry out contracts, there is little in industrial copy that is of assistance to the firm's salesmen.

Most of the publication advertising is in business papers, particularly in industrial magazines. Where the product is selected and bought by an engineer or other specialist, then professional publications like the engineering magazine may be used. This naturally might happen in the sale of lubricants, boiler compounds, belting, and electrical supplies. Occasionally an item may be of such general use, like a hand fire extinguisher, that the number of technical and industrial publications to cover the wholesale market would be so numerous as to be impractical. Then a more general type of magazine is chosen, such as *Business Week* or the *Nation's Business*. At one time the Johns-Manville Company was carrying space in over 700 industrial, trade, and technical publications. The cost was so great, even for small space, that they were nearly all discontinued and the national weeklies substituted. As industry became generally acquainted with the firm's principal products, advertising with a selected list of industrial magazines was resumed and the consumer publications dropped.

Sales Kit.—The wholesale hardware salesman who starts out with a 12-pound catalogue and thousands of items to describe and price is less burdened than many salesmen in the industrial field A man representing an industrial distributor, in addition to carrying a bulky catalogue, may have a large number of photographs There may even be a whole series of pictures for just one item Photographs, or lithographs, are much more interesting than halftones and should be much larger than it is practical to make illustrations for a catalogue. At best, showing a picture of a piece of apparatus or machine falls so far short of exhibiting the product that the very best possible illustrations should be secured.

To sell many machines it is highly advantageous to show them in action This is often impractical. The best substitute is to show a motion picture of the machine actually doing the thing it is designed to do. This is made practical by the new types of

projectors, which are only a little larger than the case of a portable typewriter. One can be set on the observer's desk and plugged into an electric-light socket, and, as a ground-glass plate takes the place of a screen, it is not necessary even to darken a room.

Sometimes the real quality of an article can be demonstrated only by showing the construction. Pictures are the one answer, and motion pictures are far superior. These pictures should not be confused with the industrial film, which usually has been dramatized and circulated to consumer audiences. That form of picture is extremely expensive; $50,000 is regarded as a minimum. Its purpose is wholly different. It is for consumer effect and must carry enough entertainment value to get into the movie houses. The film which the salesman carries is to demonstrate technical points and help the buyer to visualize and understand complicated mechanical motions. No expensive actors—or actresses—are necessary for the pictures in the salesman's kit.

When the films are to be thrown on a screen for a sales convention or for a delegation of purchasers, more attention to entertainment qualities is desirable. But even then the actors and acting should not overshadow the subject, the article which is being shown.

It is often convincing to carry samples, as of fire hose, of polished surfaces to show the effects of lacquer, of belting, and of many other items. It is often difficult to get salesmen to carry and display a considerable number of samples, but if there is any doubt of failure fully to appreciate the product, the use of samples should be insisted upon.

Unlike the representative of the manufacturer who sells to consumers, the industrial salesman is not concerned with selling the firm's advertising, except on rare occasions, to industrial distributors. He should be familiar with the advertising, but seldom will it offer any inducement to buy, as it does when shown to a dealer.

An Industrial Advertising Campaign.—The following account of the development of the dry-ice industry has been furnished us by the Liquid Carbonic Corporation, and much of the descriptive matter was provided by this firm.

While dry ice is no longer a novelty, the question, "What is dry ice made of?" is frequently asked, even by customers who have used the product and are familiar with its qualities.

Dry ice is solid carbon dioxide (CO_2). It is a colorless, odorless, nontoxic gas, one and one-half times heavier than air. Like water, it exists in three forms: gaseous, liquid, and solid; but, unlike water, the liquid phase does not exist at atmospheric pressure. To make dry ice, the carbon dioxide is cooled by evaporation until it actually freezes to a solid. The soft porous ice which results is then compressed by huge hydraulic presses into the dense form of the dry ice of commerce.

How Dry Ice Is Made.—The leadership of the Liquid Carbonic Corporation, now at the half-century mark, in the production of pure, beverage-grade carbon-dioxide gas made the step into the production of dry ice a very natural one. The national distribution of Liquid plants, coupled with a thoroughly reliable process of manufacture, gave assurance of a freshly made, uniform quality product

Carbonic gas and dry ice are manufactured by a most interesting and economical method. Its advantage is that it is self-sufficient. The raw material, which may be coke, coal, natural gas, or oil, according to the section of the country in which the various Liquid plants are situated, furnishes both the product, carbon-dioxide gas, and the power for its conversion into liquid and solid forms.

The steam, generated by the raw material as it is burned for its carbonic gas, produces the compressing power, furnishes an agent for releasing the CO_2 from a liquid solution in one of the purifying processes, and operates other mechanical auxiliaries of the plant.

The burning process of the raw materials previously mentioned, coke, coal, natural gas, or oil, produces a flue gas which contains carbon dioxide. This gas is then washed by being forced through water to remove any impurities and after washing is injected into a basic solution which absorbs it. The solution is then boiled and the CO_2 is driven off with the steam.

This mixture of gas and steam then passes through a condenser, which removes the steam, permitting the pure CO_2 to flow at low pressure to a compressor, where the pressure is raised to such a point that the gas liquefies when it is water-cooled.

This liquid is then further cooled by a process of evaporation until it actually freezes to a solid. The final step of this operation is carried out in the closed chamber of a hydraulic press,

which is then used to compact the soft porous ice into the dense form familiarly known as "dry ice."

By means of this interchange and coordination of production and operating facilities, the efficiency of manufacture is maintained at a high level.

Every precaution is taken to preserve the freshness of the product. Immediately upon its removal from the ice press, the blocks are cut into 10-inch cubes weighing about 50 pounds. They are then sealed in special paper bags and stored in special containers, which are insulated with 8 inches of pure corkboard.

Trucks constructed particularly for that purpose and insulated efficiently are used in all principal cities for daily delivery service to the ice trade. These trucks are designed and built under the supervision of the company's engineering department.

Not all customers, however, require full blocks for their use, in which event the 10-inch cubes are further cut to the desired size. Here the advantage of fresh ice is most apparent. When slabs are cut from new blocks of ice, each is of regular shape and constant density throughout the block.

Market for Dry Ice.—Dry ice has many varied and interesting uses. While a number of them are relatively unimportant from a volume standpoint, they are nevertheless interesting. In bridge construction, for example, dry ice is used to shrink metal parts, such as pins, to a perfect fit. It is used for producing low temperatures in viscosity tests of oil and for checking "pour" and freezing points. Its extremely low temperatures produce the same effect on human tissues as heat. Dry ice is also employed in the manufacture of the familiar neon signs and radio tubes.

Automobile manufacturers use it in making expansion fits of valve seats in engine blocks. Valve seats are packed in dry ice and, because of the low temperature, the metal contracts so that they are easily fitted into the block to a perfect fit.

One of the newer uses is in the manufacture of liquid-center golf balls. *The liquid-filled rubber cores are placed in drawers and frozen so that they may be tightly wound without distorting them,* thus producing a balanced ball with a perfectly spherical core.

Dry ice is probably best known for its use in the retail distribution of ice cream and other confections. At the present time, this is its chief use.

Another of its principal uses is in the refrigeration of highway trucks and railway refrigerator cars *for the transportation of*

foodstuffs. The problem of delivery of such products to the consumer in fresh and edible condition has always been of major importance to shippers. The distance over which such products could be shipped was limited by the refrigeration facilities afforded by water-ice refrigeration.

In the transportation of fresh meat from supplier to consumer, dry ice is used in combination with water ice in the following manner: The water-ice bunker of the refrigerator car is filled and approximately 100 pounds of dry ice is added for each day the car will be in transit. For example, if 5 days are going to be consumed in transporting the meat from the source to destination, the water-ice bunker will be filled and approximately 500 pounds of dry ice then added. No salt is used and re-icing is not necessary. The combination of water ice and dry ice prolongs refrigeration within the car, making re-icing unnecessary.

The benefits of this method of refrigeration for carload shippers are a saving in refrigeration charges caused by eliminating transit icings and no loss of bloom—the preservative and inhibitive action of the evaporating CO_2 gas makes the meat products more attractive, gives better color, and causes them to sell faster at the destination market.

The advantages which dry ice affords provided a new solution to these problems. Today perishables reach consumers' tables with all the freshness of original taste and flavor retained. New delicacies of the sea, perishable fish fillets, and other seafoods are now available to inland markets. Meat products are safely transported for long distances. Hitherto untouched markets have been opened.

Through the hot arid districts of the Far West it is a luxury to buy a block of dry ice to cool the automobile. The windows are closed, leaving enough open space for ventilation. Then a block of dry ice is placed on a newspaper on the floor of the car. It will last for several hours, keeping the atmosphere as pleasant as an air-conditioned hotel.

It is apparent from the variety of uses that the market for dry ice is spread over several industries. As the product is new—the first commercial supply was put on the market in 1926—there is a large amount of educational work necessary in selling.

Nation-wide Supply.—To deliver full value, dry ice must be fresh under all conditions because shrinkage and deterioration inevitably take place in any form of ice. If a dry-ice manufac-

turer had but one manufacturing plant and attempted to distribute his product from that one source to the user, even though he established warehouses from which to distribute in various areas, the efficiency of the product at the time the user put it to work would be seriously impaired. Tests made to measure the time period through which solid carbon dioxide will retain its full efficiency have proved that it must be fresh when first delivered to the shipper.

These tests show that the general refrigerating value of dry ice can be preserved over a considerable period, but its physical structure is weakened by age. It becomes porous and cellulous and is easily crushed. The consequent loss through crumbling would raise its cost to a point that might offset the economy secured over water-ice refrigeration.

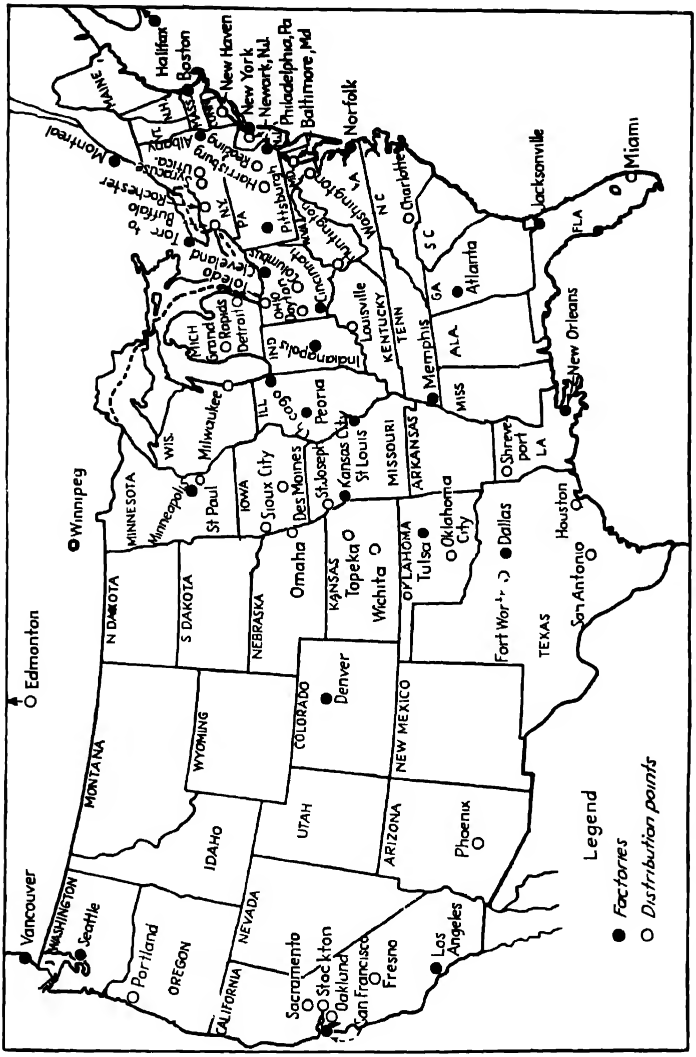
The one answer was the establishment of a sufficient number of producing and storage plants so that a supply of fresh dry ice would always be available. This has resulted in a chain of 24 producing plants and 37 warehouses distributed over the entire United States and southern Canada as shown on the accompanying map.

Any one of the 24 dry-ice factories can be drawn on by others nearest to meet special demands. The Liquid Carbonic Corporation offers an overnight delivery service, at longest, to practically every town or city on regular railway or truck routes and guarantees the dry ice to be fresh. This makes reicing possible en route at almost any point desired.

When it is remembered that dry ice is now sold as low as 2½ cents a pound in large quantities and that it retails as low as 5 cents a pound, it is not surprising that the business has grown so enormously in the 14 years that it has been in production.

Selling Dry Ice.—Salesmen and direct-mail advertising are the two principal selling agents employed by the Liquid Carbonic Corporation. But refrigerating engineers have to be consulted with every new sales problem. Water-ice and electric refrigeration are the chief competitors. Obviously, dry ice is a highly seasonal product. While some artificial ice has to be used in winter, it is evident that the amount is only a fraction of that used during the hot summer.

All this presents an extremely difficult selling job, only part of which has been satisfactorily worked out. A cabinetmaker was



This map shows the wide territorial spread of the factories and distribution points for dry ice made by the Liquid Carbonic Corporation.

found who, in collaboration with the Liquid Carbonic Corporation engineers, designed and is making a small container for the delivery of ice cream. These are sold to the ice-cream manufacturers rather than to the dealers. A large refrigerated shipping case has also been built for trucks and boxcars where low temperatures are necessary when goods are shipped in less than carlots. These cases are returned for subsequent shipments.

In actual sales promotion, a booklet entitled "Red Diamond Dry Ice" is widely circulated to prospective customers. This booklet tells a very complete story of dry ice and invites those who have difficult problems of refrigeration to fill in the following questionnaire and send it to the company. Upon receipt of this, the engineers first go to work. When their computations and estimates are completed, then the salesman is ready to talk intelligently with the prospect. Of course, an active salesforce will not always wait for a prospect to take the initiative.

QUESTIONNAIRE

1. What is the product to be refrigerated?____________
2. What kind of insulation is used in the container in which your product is to be refrigerated?____________
3. What is the thickness of this insulation?____________
4. What is the size of the container (height, length, width)?____________
5. What is the temperature of the product when it is placed in the container?____________
6. At what temperature should the product be kept in the refrigerator?____________
7. In what average outside temperature will the refrigerator stand?____________
8. What are the location and size of refrigerator openings?____________
9. Approximately how many times will each opening be used?____________

OTHER DATA

Firm name____________
Your name____________ Title____________
Address____________
City____________
State____________

Fill in the answers to these questions, then send page to

The Liquid Carbonic Corporation
Engineering Department
3100 South Kedzie Ave., Chicago, Ill.

CHART 1 - MARKETING

STUDIES NEEDED BY A MANUFACTURER PRIOR TO A CAPITAL INVESTMENT IN THE PRODUCTION AND MARKETING OF A NEW INDUSTRIAL PRODUCT

Columns: SIZE OF MARKET; GEOGRAPHICAL LOCATION OF MARKET; DOLLAR VALUE OF MARKET; MARKET BUYING HABITS; MANUFACTURERS SOURCES OF SUPPLY; MANUFACTURER'S PRICE POLICY; DISTRIBUTION METHOD; PHYSICAL DISTRIBUTION OF GOODS; FIRM'S RELATION TO THE MARKET; COMPETITION - NEW LINE; COMPETITION OLD LINE; COST FACTORS - MARKETING; SALES ORGANIZATION; SALES PROMOTION

1 THE MARKET

- WHAT INDUSTRIES WILL USE THE NEW PRODUCT?
- WHAT IS THE GEOGRAPHIC LOCATION OF POTENTIAL CUSTOMERS?
- WHAT IS THE GROWTH PROJECTION OF INDUSTRIES COMPOSING THE MARKET?
- WHAT IS THE CONSUMPTION OF COMPARATIVE PRODUCTS IN CUSTOMER INDUSTRIES?

2 BUYING HABITS OF THE MARKET

- WHAT IS THE TITLE OR POSITION OF THE PERSON WHO PLACES THE ORDER FOR THIS TYPE OF MERCHANDISE?
- WHAT IS THE AVERAGE NUMBER OF PEOPLE WHO MUST BE CONTACTED IN EACH CUSTOMER FIRM BEFORE AN ORDER CAN BE CLOSED?
- WHAT IS THE AVERAGE TIME NEEDED TO CLOSE A SALE?
- WHAT RELATIVE WEIGHT DO BUYERS GIVE TO PRICE QUALITY SERVICE SAFETY OR OTHER QUALITIES OF THIS AND SIMILAR PRODUCTS?
- FROM WHAT SOURCES DOES EACH OF THE POTENTIAL CUSTOMER INDUSTRIES PROCURE ITS NEED FOR THIS AND SIMILAR PRODUCTS?
- AT WHAT SEASON IS BUYING DONE?
- WHAT ARE THE PRACTICES ON DISCOUNTS, ALLOWANCES CREDITS OTHER FINANCIAL FACTORS?

3 FIRM RELATION TO MARKET

- IS THE FIRM ALREADY ESTABLISHED IN MARKET USING NEW PRODUCT?
- IS THE REPUTATION OF THE MANUFACTURER SIZE OF FIRM CHARACTER OF MERCHANDISE, OR ANY OTHER FACTOR CAPABLE OF CONSTRUCTIVE EXPLOITATION IN THE NEW MARKET?

4 COMPETITION

- WHO ARE YOUR COMPETITORS IN THE NEW MARKET?
- WHAT IS THEIR STANDING WITH THE POTENTIAL CONSUMERS OF THE NEW PRODUCT?
- WILL MARKETING THE NEW PRODUCT INVITE MORE OR KEENER COMPETITION ON THE REGULAR LINE?
- CAN ANY COMPETITOR BRING OUT A SERIOUSLY COMPETITIVE NUMBER QUICKLY?

5 SELLER'S PRICE POLICY

- WHAT IN GENERAL WILL BE THE PRICE POLICY ON THE NEW PRODUCT?
- WHAT WILL BE THE SCHEDULE OF DISCOUNTS AND ALLOWANCES?
- WHO WILL BE ENTITLED TO DISCOUNTS AND/OR ALLOWANCES?
- WHAT NEW CREDIT FACILITIES WILL BE NEEDED?
- WHAT DIFFERENCES WILL THERE BE IN COLLECTION POLICY?

6 CHANNELS OF DISTRIBUTION

- IS THE MARKET SUBJECT TO WIDE FLUCTUATION - SEASONAL OR OTHERWISE?
- WHAT TYPE OF DISTRIBUTION WILL BE USED -
  - MANUFACTURER'S SALES BRANCES?
  - MANUFACTURER'S AGENTS OR DISTRIBUTORS?
  - HOME OFFICE SALES FORCE DIRECT TO CONSUMERS?
  - HOME OFFICE SALES FORCE TO WHOLESALERS, JOBBERS ETC?
- WILL THE PRODUCT GO INTO THE EXPORT FIELD?
- WHERE WILL STOCKS BE MAINTANED?

7 SALES PROMOTION

- WILL THE NEW PRODUCT HAVE ITS OWN SALES PROMOTION SET UP?
- WILL A NEW ADVERTISING SECTION OR DEPARTMENT BE NEEDED?
- WHAT TYPE OF ADVERTISING WILL FORM THE BASIS OF THE OPENING PROMOTIONAL EFFORT?
- WILL A NEW OR EXTEDED AGENCY CONNECTION BE NECESSARY?
- WHAT, IN GENERAL, WILL BE THE BASIS OF THE APPEAL?
- WHAT WILL BE THE BASIS OF THE SALES PROMOTION BUDGET?
- WHAT PROMOTIONAL WORK IS BEING DONE BY COMPETITORS?

8 MANAGEMENT OF SALES FORCE

- DOES ANY VISIBLE FACTOR OF THE MARKETING PROBLEM INDICATE THAT A SPECIAL SALES STAFF OR A SPECIAL SALES DEPARTMENT ENTIRELY SEPARATE FROM THE SALES ORGANIZATION HANDLING THE REGULAR LINE WILL BE NECESSARY?
- WILL SALESMEN 'SELL' OR 'NEGOTIATE'?
- WILL ADDITIONAL SALESMEN BE NEEDED?
- DO SALESMEN NEED TECHNICAL TRAINING?
- WHAT SPECIAL AIDS, I E, ENGINEERING, RESEARCH ADVERTISING, ETC, WILL BE GIVEN TO THE SALES STAFF?
- WHAT WILL BE THE BASIS OF SALESMEN'S COMPENSATION?

9 OTHERS

- IS OWNERSHIP OF THE NEW PRODUCT ESTABLISHED?
- IS ITS TRADE-MARK PROTECTED?
- ARE ALL CLAIMS TO ROYALTIES OR OTHER INDEMNITIES SETTLED?
- DO ROYALTIES LIMIT THE MARKET FOR THE PRODUCT?
- DO TRADE AGREEMENTS LIMIT THE MARKET OR SALES EFFORT?
- WHAT ARE THE EFFECTS OF CODES ON SALES METHODS? COMPETITION?
- HAVE ALL TRANSPORTATION PROBLEMS, INCLUDING RATES, YARD AND SWITCHING CHARGES, SPEED OF HANDLING AND COSTS BEEN GIVEN FULL CONSIDERATION?
- HAVE LOCAL TAX PROBLEMS AND OTHER CIVIC PROBLEMS BEEN SOLVED?

CHART 2–ORIGINATION AND PRODUCTION

STUDIES NEEDED BY A MANUFACTURER PRIOR TO A CAPITAL INVESTMENT IN THE PRODUCTION AND MARKETING OF A NEW INDUSTRIAL PROJECT

PRODUCTION FACTORS (columns: Present Plant through Costs of Manufacture)

	Directional Research	Purchase from Outside Inventors	Undirectional Research in Same Field	Undirectional Research in Unrelated Field	Present Plant	Different Plant	Different Geographical Location	Made by Another Company	Seasonal Production	Raw Materials	Parts Stocks	Transportations	Costs of Manufacture	Service to Customer	Other General Considerations
10. SOURCES OF IDEAS FOR NEW INDUSTRIAL PRODUCTS															
MANUFACTURER'S SALES AND SERVICE STAFF	✓	✓													
DISTRIBUTORS	✓	✓													
INDUSTRIAL CONSUMERS	✓	✓													
COMPETITORS' MERCHANDISE	✓	✓													
NON-COMPETITIVE GOODS WHICH NEED COMPLEMENTARY EQUIPMENT	✓	✓	✓	✓											
RESEARCH AND PRODUCTION ENGINEERS	✓		✓	✓											
INDEPENDENT INVENTORS	✓	✓	✓	✓											
11. MAJOR PURPOSE FOR WHICH NEW INDUSTRIAL PRODUCT WILL BE MADE															
TO COMPLETE LINE					✓	✓	✓	✓	✓						
TO EXPAND SALES IN PRESENT MARKET					✓	✓	✓	✓	✓						
TO MEET OLD NEED MORE EFFECTIVELY					✓	✓	✓	✓	✓						
TO ANTICIPATE A CHANGING NEED					✓	✓	✓	✓	✓						
TO MEET A NEW NEED					✓	✓	✓	✓	✓						
TO USE IDLE TIME OF PLANT AND EQUIPMENT					✓				✓						✓
12. DESIGN AND ENGINEERING FACTORS															
WHAT ARE THE KNOWN MARKET DESIRES–SIZE, SHAPE, PRICE, EFFICIENCY, SIMPLICITY, ETC.?											✓				✓
WHAT ARE THE KNOWN MARKET PREJUDICES–SIZE, SHAPE, PRICE, EFFICIENCY, SIMPLICITY, ETC.?											✓				✓
WHAT EFFECT WILL DESIGN HAVE ON COST OF MANUFACTURE?					✓	✓	✓	✓	✓	✓	✓		✓	✓	✓
WHAT EFFECT WILL DESIGN HAVE ON SIMPLICITY OF OPERATION AND/OR REPAIR?					✓	✓	✓	✓	✓	✓	✓		✓	✓	✓
WHAT IS THE EFFICIENCY FACTOR OF THE NEW ITEM?															✓
IS THE DESIGN EASILY ADAPTED TO MINOR CHANGES?											✓		✓	✓	
WILL THE NEW ITEM BE PRODUCED AS A SINGLE UNIT OR A COMPLETE LINE?					✓	✓	✓	✓	✓		✓		✓	✓	
HAS THE NEW ITEM BEEN FULLY TESTED UNDER ACTUAL SERVICE CONDITIONS?					✓	✓	✓	✓	✓		✓				✓
13. PRODUCTION FACTORS															
CAN PRESENT LABOR PRODUCE THE NEW PRODUCT?					✓	✓			✓				✓		
IS SPECIAL LABOR AVAILABLE IF NEEDED?					✓	✓	✓		✓				✓		
CAN THE NEW PRODUCT BE MADE WITH PRESENT MACHINERY					✓	✓	✓		✓		✓				
WILL PRODUCTION OF THE NEW ITEM BE SEASONAL?					✓	✓	✓	✓	✓		✓		✓	✓	
IF SO, WHAT PER CENT OF TIME WILL PART OR ALL OF PLANT BE IDLE?					✓	✓	✓						✓		
CAN PLANT RUN ON OTHER GOODS IN OFF SEASON?					✓	✓	✓						✓		
WHAT EFFECT WILL SEASONAL OPERATION HAVE ON COSTS?					✓	✓	✓	✓		✓	✓	✓	✓		
WHAT EFFECT WILL PRODUCTION OF NEW ITEM HAVE ON REGULAR PRODUCTION SCHEDULE?					✓								✓		
HOW WILL CODES OR OTHER AGREEMENTS AFFECT PRODUCTION VOLUME AND COSTS?					✓	✓	✓	✓							✓
14. MATERIAL FACTORS															
WHAT RAW MATERIALS WILL BE USED?					✓	✓	✓					✓	✓		✓
WHERE ARE RAW MATERIALS AVAILABLE?					✓	✓	✓	✓	✓			✓	✓		
ARE RAW MATERIAL SOURCES DEPENDABLE?													✓		
IN AN EMERGENCY INTERRUPTING THE NORMAL SUPPLY OF RAW MATERIALS, WHAT CAN BE SUBSTITUTED?					✓	✓	✓	✓	✓			✓	✓		
WHAT EFFECT WILL TRANSPORTATION COSTS OF RAW MATERIAL HAVE ON FINAL COSTS?					✓	✓	✓	✓				✓	✓		
ARE CONSTANT AND DEPENDABLE TRANSPORTATION FACILITIES AVAILABLE FOR RAW MATERIAL?					✓	✓	✓	✓	✓			✓	✓		
WHAT NEW STORAGE CAPACITY FOR RAW MATERIAL AND PARTS STOCKS WILL BE NEEDED AT PLANT?					✓	✓	✓								
15. SERVICE FACTORS															
WILL THE NEW PRODUCT NEED SERVICE?															✓
IF SO, TO WHAT EXTENT?															✓
WILL SERVICE BE RENDERED BY THE MANUFACTURER?					✓	✓	✓	✓						✓	✓
IF NOT, WHO?															✓
WHAT SPARE PARTS STOCKS WILL BE NEEDED?					✓	✓	✓	✓	✓		✓	✓	✓	✓	
WILL SPARE PARTS BE SOLD AT COST OR AT A PROFIT?													✓	✓	
IF SERVICE IS RENDERED BY THE MANUFACTURER, WILL THE CUSTOMER PAY FOR IT DIRECTLY? ON WHAT BASIS?													✓	✓	
WHERE WILL SERVICE MEN AND SPARE PARTS STOCKS BE LOCATED?					✓	✓	✓								✓
WHAT SPECIAL PERSONNEL WILL BE NEEDED FOR SERVICE WORK?					✓	✓	✓								✓
WHAT EFFECT WILL SERVICE FACTORS HAVE ON COSTS?					✓	✓	✓						✓	✓	✓
16. NEW CAPITAL INVESTMENT FACTORS															
WHAT CHANGES WILL BE NEEDED IN PRESENT PLANT?					✓								✓		
WHAT NEW REAL ESTATE INVESTMENT WILL BE NECESSARY?					✓	✓	✓								✓
WHAT NEW ROADS, SIDINGS, POWER LINES MUST BE BUILT BY THE COMPANY?					✓	✓	✓						✓		✓
WHAT NEW BUILDINGS WILL BE NEEDED?					✓	✓	✓						✓		✓
WHAT NEW TOOLS WILL BE NEEDED?					✓	✓	✓						✓		
WHAT ADJUSTMENT TO PRESENT PRODUCTION MACHINERY WILL BE NECESSARY?					✓	✓	✓						✓		
17. RELATION OF NEW PRODUCT TO REGULAR LINE															
WHAT IS THE RELATION IN QUALITY?															✓
WHAT IS THE RELATION IN MANUFACTURING METHODS?					✓	✓	✓	✓		✓	✓		✓		
WHAT IS THE RELATION IN TYPE OR GENERAL CHARACTER OF GOODS?					✓	✓	✓	✓		✓	✓		✓		✓
WHAT IS THE RELATION IN FIELD OF USE?															✓
WHAT IS THE RELATION IN PRICE LEVELS?					✓										✓

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CHAPTER XXI

Public Relations

A New Conception.—As business becomes more complex and as operating units increase in size, the difficulty of being understood by the public becomes increasingly greater. When the public does not understand, it becomes skeptical, or even hostile. Continued misunderstanding or—what may be equally injurious—lack of understanding, if not removed, may turn skepticism to hostility.

The responsibility of clearing misunderstanding from the minds of the public rests squarely upon the shoulders of the management. It may no longer be indifferent. Indifference to or defiance of the public's interests, or even of its prejudices, may bring disaster. The management is responsible to its stockholders. It must provide them with security and a reward for the use of their money, which makes the concern possible. It is responsible to suppliers, who must be given fair prices and equal treatment. It is responsible to employees for fair wages and sufficiently steady work to provide for them and their families. To its distributors, management is responsible for supplying good merchandise, equal treatment, and an opportunity to make a living profit. To its customers, the ultimate consumers, each firm is responsible for supplying the best products it can produce at prices that customers can afford to pay. To people at large, management is responsible that its business be conducted in a manner unprejudicial to the best interests of all. It is from the people that the authority to pass laws, which make corporations possible, emanates.

Responsibility of management goes even further. It is not enough that all the responsibilities enumerated are fairly met; it is incumbent upon each firm to see to it that all concerned understand how and wherein the company is discharging its obligations to stockholders, employees, suppliers, distributors, customers, and society at large. There is no longer such a thing as private business, about which the public has no right to know. This statement should be read in its true sense, as applying to policies rather than to individual transactions. This is the province of the public-relations manager. Establishing policies in these various fields is establishing public-relations policies.

Press Agentry.—So much has been said and written about press agents and their devious methods of securing publicity for their employers that everything in the way of news which comes from an inspired source is looked upon with suspicion. The very essence of press agentry is *made* news. This includes all those activities which are foreign to the conduct of an enterprise but which focus attention upon it. Perhaps nowhere has it been carried to greater lengths or used with greater skill and ingenuity than with the circus. The advance agent is supposed to get a lot of free publicity for his employer. In promoting theatricals, the same methods have been used. It is one of the oldest devices known to advertisers.

Nearly 70 years ago, when Barnum first took his circus to France, his persuasive press agent was able to convince the editors of Paris newspapers that the coming of the wonderful pageant was of sufficient public interest that it demanded wide publicity. Other editors were easily convinced and followed the example of the press of the leading city of the country. So the first season the "greatest show on earth" toured France there was no advertising expense. However, before the second season started, publishers of France had made some investigations in the United States and learned of the generous sums that were customarily spent by the circus for advertising. They also belatedly discovered that newspapers were absolutely essential to the success of a circus, and, during the second season in France, Barnum's representative was regularly turned over to the business department of the newspaper when he called.

Publicity—or "free publicity," as it was often called—was closely associated with what later came to be known as "stunt"

advertising. They had much in common. The idea was that the news value and the amount of space given to an account of a staged event would cost less than an equivalent amount of advertising. With free space publicity the authors have little sympathy. It is mentioned here because there is danger of confusing press agentry with the dignified and honorable public-relations work. The most forthright methods of the press agent are sometimes used by the public-relations executive and this tends to add to the confusion.

In a recent pamphlet by William A. Hamor, of the Mellon Institute of Industrial Research, is a comprehensive and intelligent review of the approved methods of conducting public relations. As the basis of advertising is psychology, Mr. Hamor has made sociology the basis of public relations. He has granted permission to quote extensively from his monograph and the following is either adapted or quoted.

Evolution of a Public-relations Specialist.—During the quarter century immediately following the Civil War, the tremendous industrialization of America brought rapid adjustments in public-relations technics for the introduction and continuous promotion of commercial products. With the growing literacy and sophistication of the American masses—with the increase of enlightened popular taste as a result of experience with competing puffery messages—puffing, as it had been known, began to separate into two better defined parts. In 1868, G. J. Whyte-Melville, a British novelist, made this distinction when he pointed to posters, newspaper advertisements, and men in "cardboard extinguishers" as modes of legitimate puffing. All other efforts in puffery were, according to him, improper.

In consequence, the word "puffery" rapidly fell into disrepute during the period mentioned. Its accepted definition became what is now "extravagant praise." The utilization of gratuitous space was designated press agentry, while other forms of puffing took on the name "advertising."

One of the first breaks with press agentry that had lasting importance was the appointment of Orange Judd, a young agricultural chemist, as coeditor with A. B. Allen of the *Agriculturist.* Infusing a correctly scientific attitude into his editorial work, Judd censored all advertising and combated fraud in addition to popularizing apparently dependable scientific knowledge of inter-

est to his readers. Incidentally, Judd did not neglect the business aspects and obligations of his post. He was among the first in the magazine field to use premiums to stimulate circulation and started a German edition of his magazine in 1858. By the end of 1864, he was able to claim a circulation of 100,000, whereas in 1856, when he bought the *Agriculturist*, this magazine had a circulation of 812. Notwithstanding the fact that Judd maintained a rigid scrutiny over his news and advertising content, advertisements occupied a fourth of his pages in the sixties. These results demonstrated to the editors of other trade journals and eventually to magazine and newspaper publishers that the induction of the confidence of subscribers in this manner was both desirable and effectual. It required many years, however, for even professional periodicals in general to lay down and follow standards of this type.

It is apposite to mention here that, although proprietary-medicine advertisements had come to constitute more than half of the advertising in many newspapers shortly after the Civil War, about this time many influential newspapers, led by the *New York Herald*, launched a fight against the more offensive types of "patent medicine" quackery. But it was not until a much later period that important magazines reaching consumers in the home field began to bar nostrum advertising. The Pure Food and Drugs Act of 1906 gave an impetus to beneficent action of this character.

This advance of ethical criteria relating to news and editorial content, carried far toward its present status by 1900, had a concomitant adjustment in the field of commercial public relations. It required a refinement of advertising technics in paid space. And it brought about the appropriation of press agentry from the showman and politician and its adjustment to the needs of the industries.

As a social technic, such as that originally implied by puffery, evolves, the practitioners of more developed forms become conscious of the limitations imposed upon their progressiveness by being placed in the same category with those practicing outworn or obsolete procedures. Hence the rise of such appellations in the field under consideration as "press agent," "publicity director," "press-relations expert," and then "public-relations specialist." With the ascent of each of these types of public-

relations manager in commercial organizations have come significant adjustments in technics.

Especially during the past 30 years, with the development of scientific management throughout the industries, the whole approach to public relations for commercial organizations has entered a new phase, which has not yet taken quite definite shape.

Out of such efforts as those of Judd in his *Agriculturist* came more refined notions of publication policy and advertising ethics during the nineties. Trade organizations of advertising men and publishers were started to gather together and disseminate masses of factual material relating to the experience of members in meeting mutual problems. Books on advertising and public-relations management began to appear. Scientific management was arriving at the public-relations field.

Present-day Procedure in Product Publicity.—The most advanced type of product introduction, prior to advertising in periodicals or by privately printed literature, that has been worked out during this period will now be presented in outline.

If the product to be announced or publicized is a novel one and is the outcome of scientific research, the procedure that is systematically followed is briefly as follows.

1. It is essential, first, to describe in the scientific literature, in an appropriate professional periodical, the investigation that has eventuated in the discovery or development. In this way the scientific world is told about the product before its announcement to the trade or trades concerned or to the public. By such a practice, information concerning the research and its creative outcome is conveyed first of all to the professional group whose members really decide upon the merit of such products and are coming more and more to control changes and purchases in general, both in the industries and among the masses of the people. Industrial scientists and engineers are generally anxious to secure all the obtainable facts regarding new products of concern to their companies, for transmission to buying officials; and they desire conservative, reliable descriptions of such novelties. Physicians want to know about new medicines. Dietitians need to keep up with practical advancements in food chemistry.

2. Reprints of this contribution are procured for distribution to interested specialists and also for subsequent cultivation of a market.

3. Brief descriptions of the research accomplishment are prepared and sent to other periodicals in the field, for use immediately after the appearance of the main paper. In these condensates reference is made to the availability of a complete account of the investigation and its results (in the form of the reprint mentioned) to all interested persons upon direct request. Privately published bulletins, issued subsequently, can be announced in the same way.

4. Special articles are also written for journals in the trade field concerned. Often, immediately after the announcement of a scientific or technical discovery, invitations to prepare such articles come in from editors of interested periodicals.

5. Newspaper publicity is conducted immediately after the publication of the main or key paper. When the latter is accepted by the editor of the journal to which it has been transmitted, it is learned when the paper will be published. Then appropriate stories are written by specialists and sent to science editors, press bureaus, and newspapers, for consideration for use after the date on which the main paper will make its appearance.

This procedure assures that the proper type of descriptive manuscript will be in the hands of newspaper editors prior to the publication of the scientific paper and that they will have for convenient use a dependable, plainly explanatory account of the research. If this practice is not followed in the case of a new product of public concern, there will be danger that the story of the achievement will soon be improperly told by outside feature writers who have access only to the less popularly phrased articles in scientific periodicals.

There is a demand for popularized scientific information; the publicity specialist does not have to create it. His responsibility and opportunity consist in providing accurate material in sufficient quantities and of proper quality.

6. Undoubtedly research on the product will be continued, to gain more information respecting its properties and uses. The factual information that is gleaned from this supplemental investigational work will be made available to the profession or trade concerned and then to the public, in accordance with the cycle outlined above.

Publicity and the Control Group.—Scientists and engineers are usually unversed in the art of dealing with public opinion and in

nontechnical literary work; hence all this publicity must be entrusted to specialists who can present facts correctly and interestingly and can foresee how the public will interpret them.

If a new product does not possess a research history—that is, if it is not the result of planned scientific investigation based upon a knowledge of existing needs or market requirements—and therefore cannot be the subject of a professional paper, the announcement of its commercial availability cannot be made so constructively in the systematic manner described in the foregoing paragraphs. In such an instance, the novel product will ordinarily be announced to prospective consumers through relevant trade periodicals and subsequently through newspapers and popular magazines. The point to be borne in mind is that it is essential to place a convincing story first before the "control group" for a given type of product and then before the public.

It is always a handicap, in industrial publicity, when a new product does not have a releasable story of research endeavor behind it. It must be pointed out here, however, that companies sometimes find it necessary to keep certain processes secret and hence may be loath to divulge details of their production methods; this reticent policy, of course, may apply to some or all of the research novelties coming from their laboratories. But even in such cases, certain aspects of a new product can generally be treated in the manner outlined.

In other instances, systematic publicity is hampered by legal restrictions, imposed by the need for patent protection or at least favorable action in the Patent Office, before any particulars can be divulged to the public. If a research creation has impressive novelty and can form the subject of an interesting story, it is not always necessary, to insure trade journal or newspaper acceptance of articles, to be explicit regarding the process of manufacture. If a tanner wishes to announce the commercial availability of such a remarkable product as a "self-shining" leather, and does not desire to publish any facts concerning the method of producing it, he and his publicity aids will nevertheless find a receptive trade and popular press. Descriptions of uses of new products whose composition cannot be disclosed are sometimes infused into addresses or their discussions at meetings of trade associations whose members are interested in such developments.

Chemical stories of the industries are in general more appealing to the public than physical or mechanical tales from a similar source. The public is particularly interested in new remedies, foods, detergents, textiles, and constructional materials that have required protracted scientific study to evolve and whose merits have been proved by technical trial. But popular information on new heating appliances, furniture, wearing apparel, and household fixtures can also elicit response.

An alert, progressive food manufacturer may sustain laboratory research for a long period of time— 5 or 6 years is not unusual— in the development of a new product that satisfies rigid nutritional standards. But he will devote another year or so to consumer acceptance trials and also to preference tests in homes, hospitals, schools, and other institutions before he will feel ready to place the novel food on the market.

Being guided by his own research staff and, when necessary, by additional specialists, he will make every effort to be certain about the real dietetic merit and general acceptability of the food prior to launching upon large-scale production and subsequent sales promotion. Such a science-minded manufacturer will not invest money in the broad marketing of a product until it has been accorded consumer acceptance in real use in carefully selected districts. In most cases, this observational work leads to helpful information regarding the article. If such market study induces improvements in the manufacturing process, it will be all the more satisfactory; and it is not singular to hear of benefits of this type. In any case, if the product is acceptable to consumers, there will be secured information of utility in publicity, advertising, and sales. That is why it is always advantageous for the public-relations specialists of a company to keep in close touch with a new product from the time of its birth in the laboratory.

The manufacturer must also accord investigational attention to technical marketing problems, such as, for example, the matter of container, the effects of storage, and the working out of attractive recipes for the use of the food in the home.

Advertising and Publicity.—The puffery of the past century has become an integral part of public-relations specialism and of the advertising business, subject to conceptual notions of "good practice" that have been mentioned. Moreover, as

indicated, public-relations work has been nourished by technical developments.

The most influential medium in the improvement of public relations has been the advertising agency, although the trade association secretariat and in recent years public-relations departments of various companies have had active roles in this development. At the time of the Civil War, there were seven advertising agencies in New York City and perhaps as many in all other cities.[1] Twenty years later there were 50 such firms, and now there are about 2,000. Many of these agencies have evolved deft technics for advancing the broader public-relations interests of their clients, in addition to carrying on advertising programs.

At present advertising and publicity are generally regarded by industrial management as two closely related but distinct forces in the field of public relations. As applied, to yield effective results, these forces must be coordinated. Advertising is basically a force for the promotion of sales Publicity, as usually carried out, is essentially educational in character. The fact that some present-day advertising is informative in nature occasionally complicates this picture in the minds of certain publishers and business executives Publicity should never take the place of advertising. Its ordinary sphere is to acquaint the public with new discoveries or developments of interest, so as to erect a background of information that can later be made to yield sales through advertising and other promotional activities. In addition, publicity is of utility in neutralizing or subduing sales resistance, especially misinformation and prejudice; new customs, vital elements in market cultivation, can thus be introduced by arousing interest in their novel features and then a vogue therefor.

Among the other benefits to the industries that are derivable from publicity is the dissemination of good will by the release of interesting and favorable facts about a business and its policies If a company is conducting scientific research with the aim of improving its products, this fact is of concern to consumers, and it is the special province of publicity to acquaint the public therewith. If a company has leadership in its methods, the publication of that fact, in an interesting way, will add to the

[1] George P. Rowell, "Forty Years an Advertising Agent," Franklin Publishing Company

status of the organization among consumers. It is plain that a business may be made or marred by the method and manner of its publicity.

If it is desirable in an undertaking to convey important news to the trade or to the public, the competent publicity specialist can devise a situation that will have adequate appeal to carry a story containing such a message. These specialists must be on the alert to take advantage of events of general news interest, to the publicity advantage of their clients or employers.

Practical Problems of Public-relations Specialists.—Perhaps the work of the Public-relations Specialist may be made more vivid if a hypothetical example is given. In an industry which we shall designate as Pabulum, there is a heavy tariff. In the United States only a comparatively small number are employed in the industry. About four times as much Pabulum is imported as produced here. As every family in the country is a user of Pabulum, all are taxed for the benefit of the few local producers Importers feel that this tax is neither economic nor just. They maintain that the amount collected in tariff raises the price to all consumers, and as only one-fifth of the product is home grown, the price for each four pounds is increased to protect those who produce one pound at home.

If the importers start a cooperative advertising campaign, it will meet with much opposition because of the obvious self-interest of the advertisers. So they approach the problem in an impersonal way. The Publicity Specialist secures an economist of standing to make a study of the subject. He prepares an article for the *Economic Review* showing, among other things, how much each family is taxed and how much the aggregate amounts to, for those engaged in production. Other writers step this down for newspaper readers. Meanwhile other articles are prepared for the women's magazines, as women are the principal buyers. Reprints of the original article are sent to members of Congress.

Other writers prepare articles for the trade journals, so that the retail trade is made familiar with all the arguments. Thus, if customers ask questions about Pabulum and the effect of the tariff, the dealer will be on familiar ground and will be able to answer questions intelligently. Domestic science teachers and their publications will not be overlooked.

If successful in arousing public interest, women's clubs, school and college debaters and other forums will be supplied with material for discussion. Even a debate over the radio is a possibility with a matter of so much interest.

This is the barest outline of what an alert Public-relations Specialist would work up for a program, when given charge of a matter of such magnitude. Also the authors believe that this is representative of a large number of problems that can be handled by the Publicity Specialist much more effectively than by advertising.

Public Relations Policies.—To enlightened management, a company or an institution can be expected to prosper only as it serves. All businesses are organized to make profits, but to expect profits only as they can perform services acceptable to their consumers. In general, profits will be proportional to services. This may seem like an idealistic program, but it is the ideal of a large number of businessmen, not the Utopian desire of the classroom. Arthur W. Page[1] proposed the following:

> The first thing in the personal relations program is to have the management of the business write out a statement of policy. This is equivalent to saying to the public: "We should like to serve you and we offer you the following contract which we think would be fair to all concerned and mutually profitable."
>
> No one can write out such a document without thinking over the company's responsibilities to the public, as a purveyor of goods or services, as an employer, as a taxpayer, perhaps as a trustee of the public's investments, and so forth. It might occur, also, that a document of this kind, which the management would be proud to sign, when literally applied to the business might not fit in all particulars. This immediately brings up the question whether the business or the policy was wrong and which should be changed. In other words, this writing out of a policy is a device for making the management take the time to study seriously and carefully the relation between the public and the business, to see whether the business has public approbation and whether it ought to have it—to see itself as nearly as is possible as the public sees it.
>
> The second part of the program I suggest is that a policy having been established, some machinery be set up to see that two things happen:

[1] Vice-president of the American Telephone and Telegraph Company, speaking before the International Management Congress, Sept. 20, 1938.

(1) that the business does not deviate from the policy by inattention or neglect, and (2) that the details of the policy be changed to fit the changing public desires. The machinery to do this is ordinarily called the Public Relations Department.

A company can, of course, work out a policy and set up machinery to keep it revised without a public relations department as such. But keeping attuned to the public wishes may be so vitally important that it seems but a matter of insurance to detail someone to spend all his time on that job. As knowing the public is not an exact science, the gentleman detailed to the job cannot answer questions with the precision of an engineer, or even within the latitude taken by legal counsel. But by constant attention, study, and experience, he can learn some things and he can see that the problems concerning the public get the attention they deserve from the rest of the management.

However, to do this effectively he will have to be a part of the policy-making councils of the company, for it is of the essence of the daily conduct of affairs. It cannot be an isolated function. Even though a company has set up a positive program and has a realistic philosophy about its relations with the public, it must still be prepared to meet new aspects of public opinion which arise at any minute. It may be questioned by one group for having too much debt, and another for not having enough; by one group for having too many college graduates, and another for not having enough; at one time in our history the public would have censured a company for building ahead in a depression, at another for not doing so; sometimes there is criticism of lack of salesmanship, and sometimes of overselling. In other words, the public is a somewhat whimsical master. To keep in tune with it means eternal vigilance in watching its moods.

Not long ago I saw a review of a book about Governor Hutchinson, British governor of Massachusetts just before the Revolution. The review stated that the people of Massachusetts had convicted Governor Hutchinson of treason against the state which they anticipated forming. The process of reform, so strikingly stated in the review, has been exactly the process of reform that the American people have continued to practice on both individuals and business ever since. When the public gets an idea that certain business practices should be changed, it picks out a victim, tries him, and convicts him under the law it intends to pass. The job of business is to guess what practices the public is really going to want to change, and change them before the public gets around to the trial for treason.

Propaganda and Publicity.—Because publicity and propaganda are the tools of the public-relations expert, it is pertinent that their uses and abuses be considered, at least briefly. Propaganda

has not acquired an unsavory reputation through its use to promote higher pay levels, extension of public schools, slum clearance, truth in advertising, or the eradication of syphilis. Editors, teachers, writers, preachers, and politicians are all propagandists in the sense that they advocate "steps," "measures," and programs which they believe beneficial to the public. That part of their openly avowed program may pertain to an interest which is personal is no reflection on the sincerity of the advocate or the justness of the cause.

Propaganda is usually unsigned. The idea is that whatever is said is verified by the publication which presents it. Basically, there is no more reason why a manufacturer, or other business concern, should not send a publisher an account of some event connected with his business which might be of interest to readers than there is why a preacher should not send a synopsis of his sermon to the editor of the church column. That each might profit directly, or indirectly, by the publication has nothing to do with the ethics of the case. If the preacher were required to sign the report of his sermon, it would be embarrassing since it would seem to make an undignified bid for publicity. Not signed, it gives the impression to most newspaper readers that the editor regarded the sermon sufficiently important to have it reported. This is vastly more pleasing to the preacher than to have the impression go out that he actively sought the publicity.

Business firms as well as professional men may seek publicity. It may also be to their advantage to have the news given anonymously. Suppose a new building is to be erected. Presumably it will be a benefit to the street or, possibly, to the whole town. Advertising space might be employed to make the announcement, but that would imply either that the press was biased against the firm making the improvement to such an extent that it would not mention the enterprise or that it was so lacking in initiative that its reporting was not dependable. Besides, it would be much more pleasing to the firm to have the news item come from the newspaper than from the one making the improvement.

Suppose, again, that there is a serious fire hazard in a town. It happens that one manufacturer is particularly endangered by the firetrap. For him to come out openly and advocate its removal might look like asking a personal favor. The cause

would be no more just by his signing the account, and the effect might be much less impressive.

Many of those who inveigh most vociferously against propaganda use the vilest propaganda in doing so. Consider, please, the following quotation:

> He who pays the piper calls the tune. Excessively rich interests, corporations and individuals, infuriated at being compelled to contribute to social reconstruction by the payment of just taxes, have spent millions of dollars since the last war in socially destructive propaganda. In doing so they have brought the entire technique of the professional propagandist under justifiable scrutiny. The debate about propaganda today is, then, basically a branch of the debate about the distribution of the national income. The attack on propagandists is, by the same token, not an attack on a democratic right but a defense of a democracy that is jeopardized by plausible, soft-stepping, invisible propagandists who poison the wells of public opinion.

The author of that paragraph, under the guise of correcting unsocial propaganda, is striking as hard as he knows how at our economic system. "The debate about propaganda today is, then, basically a branch of the debate about the distribution of the national income." In other words, the evils of propaganda cannot be cured without a redistribution of income. He was supposed to be debating the menace of propaganda to democracy. Yet he adroitly puts in a plug for a new economic order, then, in the same breath, accuses others of "poisoning the wells of public opinion."

The use of any form of propaganda as in the press, the pulpit, or the classroom—may be good or bad according to the honesty or deviousness of the one using it. The authors have as intense a dislike of duplicity, deceit, and misrepresentation as have the most ardent reformers. They believe, however, that propaganda of and for business is entitled to the same rights and privileges as the propaganda against business. Both are to be abhorred when false and deceitful. But when a law prevents an employer from presenting his side of a labor argument to his employees, he is driven to the use of propaganda, which may seem less forthright than would a direct statement, which the law forbids. Yet the very ones who uphold and prepare propaganda to support that kind of labor legislation cry unto high heaven for means of

preventing any voice for the employer, even that of indirect communication.

Publicity plays some part in almost every major campaign. In most instances it is a legitimate part. In any case, false, misleading, and deceptive promotional material has no place. It is unethical and in the long run it will be unprofitable.

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CHAPTER XXII

The Consumer Movement

Origin of the Consumer Movement.—So many things are included in the term which is the subject of this chapter that it is difficult to be specific in discussing it. To the authors, it means primarily a better understanding of consumers' goods and the setting up of standards by which they may be judged. These are to be reflected in a standardized labeling system which plainly indicates the quality level to which the article belongs. We believe that the present agitation for more complete information concerning consumers' goods and a large amount of education that is involved in understanding what constitutes quality differentiates the present movement from others that have gone before.

The movement has been very much complicated by reformers who believe that the profit system should be abandoned and something substituted in its place. Part of these reformers would substitute cooperative marketing and cooperative stores for our present system. Others would boldly carry us over to some form of socialism. Still others have found a new source of livelihood in attacking advertised goods and providing advice as to the best values. In addition to all these, there is a critical attitude that business is not conducted with the degree of honesty that is expected Many teachers in secondary schools and even some professors in colleges believe that business fundamentally is corrupt and reveal their belief in their instruction. This belief is largely founded on a group of books that have attacked business and advertising from various angles.

Periodic waves of reform sweep over the country. Frequently these are started by some exposure of corrupt business or political

practice. One of these came in the early nineties following the publication of "The Jungle" by Upton Sinclair. This book exposed some unhealthy conditions in the meat-packing industry in Chicago. Corrective legislation providing for Federal inspection and certification followed.

At the turn of the century came a deluge of muckraking articles, published mostly in periodicals. Lincoln Steffens, Ida Tarbell, Ray Stannard Baker, George Kibbie Turner, Thomas W. Lawson, and Ben B. Lindsey were the leading purveyors of literary muck. Their studies were so thorough, so accurate, so well documented, and of such general interest that they were gladly accepted and published by the leading magazine publishers of the time. They attacked both corrupt business and political corruption. Popular election of United States Senators was one of the results of the exposures. About the same time, Dr. Harvey W. Wiley, a government chemist, discovered that many foods on the market had used injurious preservatives. He gave wide publicity to his findings, in which he received the wholehearted support of the women's magazines. The Pure Food and Drug Act of 1906 was a tangible result. It also stimulated an interest in a higher standard of purity for all foods and was a great encouragement to the use of packaged foods.

For more than 20 years following this, there were no spectacular innovations of popular interest. The "truth in advertising" movement commenced its unostentatious but effective growth. The Federal Trade Commission came into being, and the Clayton Act was passed. These and other influences, such as the growth in popularity of women's magazines and their intelligent dealing with problems of the home and the improvement and wider scope of domestic-science study, produced a steady but not spectacular improvement, both in the values of products available for the home and in the higher standards of honesty in buying and selling.

Then at the close of the twenties came the business crash and a flood of muckraking books, almost simultaneously. These books were a strange mixture of information, misinformation, and deception. Simply written and gossipy without limit, they were widely read and exerted at least a temporary influence of considerable extent.

Why the Movement Has Grown So Rapidly.—It is characteristic of a depression time to bring out new ideas for supposedly

more efficient business methods. The Farm Grange came in to being as a result of the hard times of the early seventies. The Patrons of Industry followed in the middle eighties. The "Greenback" party, the single-tax idea of Henry George, the bimetal craze, and the cooperative movement more recently have been stimulated by periods of business depressions. Going off the gold standard and the reduction in the amount of gold in the dollar are products of the depression of the past decade.

The Grange established thousands of stores on a modified cooperative basis. Members held meetings for the discussion of business and political questions and became a real factor in the social life of the country, although their merchandising activities were soon discontinued. The Patrons of Industry (P.I.'s) proposed that the order should arrange with selected stores to sell merchandise to their members at a flat 10 per cent margin over costs They published and distributed literally millions of circulars quoting manufacturers' and wholesalers' prices of consumer goods But for all their spectacular activities they soon passed.

The present prolonged depression has provided a fertile soil for urging the adoption of new economic systems and unlimited criticism of our business system. The best of this is for more comprehensive consumer education. The worst is a widespread attack on American business and especially on advertising.

If one were to catalogue all the influences that have brought about the consumer movement, there would be a very long list. The growth in the extent and the improvement in the informative quality of advertising probably should come first. To put it more broadly and more accurately, modern magazines, including the advertising, should come first. Especially is this true of women's magazines, already mentioned.

Another influence in arousing consumers to take a more active interest in getting the most for their money is the recently developed practice of many manufacturers to submit products —both their own and their competitors—to a large number of women for their tests and subsequent comments. This has aroused an intelligent and lively interest in current merchandise and intelligent methods of comparison have developed.

The influence of domestic-science study in both schools and colleges is a growing factor. Women, because of these studies,

have become more intelligent buyers. Although they still spend a large part of their budgets under the urge of style rather than art or service, they actually have come to know vastly more about the goods they buy than at any time in the past. This intimacy with merchandise has awakened a desire for more information, particularly about quality and materials.

The muckraking books had a quickening influence, which tended to accelerate and intensify interest in learning about consumer goods. The Consumer's Research, Inc., sprang directly out of one of these books and Consumers Union of United States, Inc., is an outgrowth of this company, instigated by internal dissension. These and others who sell a testing service claim about 200,000 members, which is a rather puny growth compared with the membership of the Grange and the P.I.'s when they were in their prime.

Other quieter but probably more influential factors have been the work of the better business bureaus, numerous trade associations, the American Standards Association, the National Bureau of Standards, and numerous publications, which censored their advertising and conducted testing bureaus in the interest of their readers. In very few of these have women's clubs or other social or educational organizations played a conspicuous part.

Other Contributing Factors.—The moral and ethical standards of business have slowly but gradually improved ever since Jacob, aided and abetted by his mother, lied to and deceived his dying father to defraud his brother out of his birthright. Since advertising is the visible part of business, a public record open to all who read or listen, it is only natural that it should lead the upward procession. In this phase of business, misrepresentation and deception are the exceptions. The rapid development of advertising in this century has been accompanied by a drive to make it more trustworthy, consequently more influential, and incidentally more profitable. Laws have been enacted over a large part of the United States which make it a misdemeanor to publish an advertisement which is "false, deceptive, or misleading." Numerous other laws, to be reviewed later, have been enacted. The FTC has been established. Better business bureaus are maintained in almost every city. All these have for their chief purpose making every form of business, including advertising, more honest and more dependable.

Yet no one would maintain that business is free from dishonesty nor advertising free from deception. Unfortunately, both are judged too often by the small per cent that is crooked rather than by the very high per cent that is above criticism. There will be a still further improvement as the public becomes so enlightened as to demand it or so much interested as to do something about it. If a thousand people, out of each million who see a deceptive advertisement, would merely cut it out and return it to the advertiser, with a penciled statement, "I do not believe this," practically all false advertising would disappear within a year.

The trouble is that people are so accustomed to lying among themselves socially that they don't resent lying as much as they should. For every lie told in business, there are scores told in society. Consumers have come to expect businessmen to be far more honest and upright than they are themselves. There are probably many more lies told about why merchandise is returned to stores—to mention just one practice—than are told to misrepresent merchandise. A part of the consumer movement yet to be developed is the idea that buyers must not lie if they don't want to be lied to.

Some Associates of the Movement.—The paid buying guides have sold their services by creating the impression that many, if not most, foods on the market are unwholesome, if not actually poisonous; that fabrics are generally contrived to give the least rather than the best service to consumers; and that trustworthy advertising is the exception. This also is the attitude of the muckraking books, which have stimulated the sale of buyers' guides. Following are some quotations from those active in selling buying guides.

Arthur Kallet, general manager of Consumers Union, explained in his book "Counterfeit" that business is a

> . . . ring of counterfeiters operating wherever money is exchanged for goods—a ring so bold that its plants are run openly, so powerful that the law cannot admit its existence. . . . It owns the big factories in Millville, the department store down on Main Street, the automobile agency and the little shops around the corner.

In his conclusion, Mr. Kallet says: "The remedy must not be sought in legislation but in a fundamental change in our economic system." Becoming even more explicit, he declares it to

be his opinion that the evils of which he complains cannot be ended "so long as industry is privately owned."

The Consumers Union Reports, according to Alfred T. Falk, in a speech before the Hundred to One Club of New York,[1] had no criticism to make of Mr. Kallet's statements.

Donald E. Montgomery, Consumers' Counsel, Agricultural Adjustment Administration, gave one of the principal addresses at the conference on consumer education held at Stephens College, Columbia, Missouri, the first week of April, 1939. It was a long and clever lecture on the necessity for consumer education, because nothing of the kind could be expected from the regular business or industrial organizations. He admitted that of "one or two" chain stores, mail-order houses, and department stores a "number are willing to push forward toward factual selling." But he asks, "Is it true that the profession of salesmanship can make a living only by virtue of the ignorance of the laity?"

This, unfortunately, is the attitude of many departmental officials of the Federal government. Like Mr. Montgomery they feel that the interests of business are antagonistic to the interests of people at large, and, supported largely by taxes paid by those whom they attack, they go about the country stirring up enmity toward business under the guise of education, under or within the consumer movement.

J. B. Matthews was before the Dies Committee during December, 1939. The *New York Sun* reports his charges as follows:[2]

> Matthews at one time was head of Consumer's Research, of which Consumers Union is an offshoot, and he spoke of the organizations he attacked as realizing that the power of advertising was an absolute essential if American production is to find the market necessary to keep the wheels turning. Thus, if faith in advertising can be broken, a vital cog in the machine has been smashed.
>
> The manner in which these consumer organizations carry out this program, the report went on to explain, is to make use of real and fancied abuses encountered by consumers in their buying, building up these abuses until it seems that they are the result of deliberate fraud, then work the resultant distrust and ill will into the construction of a movement which "the party hopes to integrate with its own revolutionary program dictated from Moscow."

[1] *Oct. 31, 1939.*

[2] Dec. 11, 1939, p. 25.

Cooperative Distributors is an affiliate of the Cooperative League of the United States of America. It describes itself as "an institution owned by those it serves and working toward efficient democracy." Promotional material for the cooperative institutions is distributed by this organization, which is also associated in the minds of the public with the consumer movement.[1]

The authors have included the above to show the various ideologies that may have contributed to the growth of the consumer movement, which have greatly profited by it in many instances, but which in the minds of the authors are wholly separate and apart from it. While attacks on business may have helped spread interest in the new movement, the time seems to have arrived when the movement must divorce itself from these various agitators if it is to continue to grow and spread its wholesome influence. Indeed, the success of the consumer movement may ultimately be measured by the extent to which it has replaced its present associates.

Difficulties of Consumer Education.—To anyone who has the rudiments of a technical education, the idea of teaching the housewife how to judge qualities of some 4,000 or 5,000 different items that will come into her home in a few years' time is no less than appalling. In so many instances the manufacturers themselves are not sure! For example, in packing coffee, some roasters believe so firmly that "blending in the green" is essential to the choicest flavors that they invest thousands of dollars in coffees which are intermixed and kept maturing for as long as 6 months before roasting. To prove that this really makes the final "roast" more acceptable to the thousands who consume it would be impossible. Yet so devoted to producing the best are these firms that they continue in spite of the expense. Other coffee blenders do not share this belief and so either do not allow so long a time for maturing or omit it altogether.

A similar period for aging vanilla extracts is generally thought to be necessary for top flavors. Other extract houses curtail the

[1] It is important to distinguish between the cooperative movement and the consumer movement. The cooperative movement is composed of actual business units wherein the farmers or consumers invest their own resources and assume the risks of competing against private business. It has not been considered separately, since our discussion of marketing problems and policies applies equally to cooperative business and private business.

time for maturing from 6 months to as many weeks. Only the most discriminating appreciate the difference, while many prefer a synthetic vanilla extract made from coumarin.

Manufacturers of cutlery could easily produce knife blades so far superior to most found on the market that the length of life and the ability to hold an edge would be doubled many times, but the task of educating the public to the benefits received from a 2-dollar paring knife is so great that the project would be unprofitable. Other items offer similar difficulties.

In the last 20 years advertisers have spent fortunes in educating the public to brush their teeth. One experienced advertising man estimated that, by periodical advertising alone, it costs $25 to convert an individual to the benefits of keeping teeth clean. Once converted, the profit on all the toothpaste an individual might buy would not be enough to pay the interest on the 25-dollar investment. Dentists are not agreed on the amount of abrasive material that may be safely used. How, then, can the manufacturer be expected to "educate" his customer as to "quality?"

There are three types of baking powder, cream of tartar and tartaric acid, phosphate, and alum—to adopt the names which are commonly used and partially understood. All three acids react with baking soda to form laxatives of differing intensities. Physicians disagree as to the amount of each which may be used without danger of injuring human tissues. Some of the governmental agencies inveigh strenuously against alum baking powder, while other departments of the government buy and use alum baking powder in large quantities. These are reviewed to show a small part of the difficulties involved in explaining a few of the household supplies so that they will be understood by the users.

It is a well-established principle of business that the buyer must pay for his education. Where the seller teaches his customers how to use his product, the price must include the cost of the instruction. That is strikingly illustrated with such an item as a sewing machine. When a demonstrator calls and teaches the new owner how best to use her machine, he has to be remunerated, and the simplest and most satisfactory way to do it is to add the cost of the instruction to the purchase price.

Few manufacturers are good teachers. Their business is to make goods, not to give instructions in the best ways to grade

them or how best to use them. That should be turned over to educational systems. Yet, because new goods have come on the market with such rapidity, producers have found it advisable and profitable to give some instructions about their products. If the articles give satisfaction when used according to instructions, they will prove satisfactory and the business will grow and prosper. So it behooves each manufacturer to do the best educational job possible in his own interest, even if he is not an effective educator.

It is not indifference nor perverseness that keeps most manufacturers from giving more information about their products. It is the immense difficulty of doing an adequate job at a cost that can be undertaken. More informational advertising copy will be adopted just as fast as consumers are educated to respond to it.

As a matter of fact, a prodigious amount of printed matter is devoted to instructing purchasers about products they buy and how best to use them. This information naturally is not in the display type of magazines or in the radio commercials. Much of it appears in package inserts, where it naturally belongs. Those who criticize advertising so severely for being emotional rather than educational would do well to read some of these package enclosures.

A word about motives may be in place. A few manufacturers skimp or adulterate their products. Why? It is because they think they will make more money. Other manufacturers try to make the best goods their consumers will buy. Why? Because they believe that in the long run they will be most profitable.

Information for the Label.—The demand for more informative labeling is shared by retailers as well as consumers. Most manufacturers of high-class products would also heartily welcome a system of labeling which would clearly designate the difference between their products and others of less merit. This would include levels of quality as well as ingredients from which the product is made, and instructions for use.

A definitely accurate description usually is so technical that it is meaningless to most housewives and other consumers. The amount in American units of measure is one specific requirement that seems reasonable. Yet in the case of cheese, butter, lard, and numerous other products, the weight at the time the article is packed will not be the same 6 weeks or 3 months later. The

articles tend to lose moisture, while retaining undiminished all the ingredients which make them valuable as foods or food accessories. Other items like tea, coffee, and bakery products tend to absorb moisture and so increase in weight. These deteriorate more by adding weight than those first mentioned by losing weight.

One intelligent woman made the reasonable suggestion that labels give the following:

Style: cream style or whole kernel in corn.

Type: sweet or sour, in cherries.

Count: number of slices in can of pineapple or number of halves (approximately) in pears or peaches.

Syrup: heavy, medium, or light syrup, or water pack.

Variety: some people prefer Kieffer pears, and others will eat nothing but Bartletts.

A further discussion by a woman who has given much thought to the subject brought out the following proposals:

In buying hose, we want to know:

1. Whether the material is "pure-dye silk," weighted, or mixed fibers.
2. The thread count.
3. Gauge—not just the kind of machine used, but if all the needles were actually used.
4. Twist.
5. Length in inches, not just short, medium, and long.
6. Size, according to some standardized system of marking.
7. Full-fashioned or mock full-fashioned.
8. Firsts, seconds, or thirds.

Some of these things could be taken care of in a standardized *A*, *B*, *C* grading system.

In dresses we need to know as minimum information:

1. Material: Its fiber content, per cent of weighting, per cent of sizing, and warning as to shedding or other unusual qualities.
2. Size, according to some standardized system of marking.
3. Color fastness, to sun, perspiration, and washing.
4. Washing directions, and shrinkage to be expected.
5. Permanency of finish.
6. Guaranty as to slippage.

On mail-order dresses we want to know the width of seams.

In dishes we want to know:

1. Whether they are earthenware, semiporcelain, soft- or hard-paste porcelain, or bone china.
2. The temperature the ware will stand without crazing.
3. Whether they have overglaze or underglaze decoration.
4. How to wash, and how to store dishes in order to protect the overglaze decoration.

A superficial survey of upwards of 100 women did not reveal one who knew the meaning of 50 per cent of the terms used in the above paragraphs. It is possible that, if such information were attached to the different articles to which they apply, in course of time consumers might become familiar with the various terms. Apparently the cost of adding such information would not be a great hardship to anyone, and the trial seems to be worth while, although it is apparent that the information would not be immediately helpful. It all goes to show how involved a seemingly simple requirement is. Furthermore women—and sometimes men—like to deceive themselves as to the sizes they wear. Shoe manufacturers formerly marked sizes in plain figures. Selling the appropriate size became so difficult that a blind system was adopted and is still in force. This is one place where the consumers do not want definite information about the products they buy.

Grade Marks.—For several years consumer groups have been studying the possibility of attaching labels which designate quality. It seems simple. Say *A*, *B*, and *C* were used to designate different grades. What are the difficulties, and why has not such a seemingly simple and helpful nomenclature been widely adopted? First, a judicial board with official standing would be necessary. Presumably this would be a Federal board. An alternative would be to organize another American Standards Association, which would consider consumer rather than industrial goods. In a limited way, the Standards Association is doing some work in the consumer field. This is to be preferred, it seems to the authors, as manufacturers, retailers, and consumer representatives could meet and make the best possible standards, grant certified labels, and trust to others to carry on the necessary educational program.

If it were to be turned over to Federal authorities, it would soon become bureaucratic in methods and demands. As we can appreciate from experience with the various Federal commissions now operating, politics, officialdom, ruinously expensive procedure, and long delays are characteristic of such boards and commissions. Precedent rather than consumer convenience and preferences would soon become the guiding rule.

The labeling of second and third grades is a problem yet to be satisfactorily solved, as discussed more at length in the considera-

tion of a "Family of Products" (Chap. IX). One of the striking illustrations is in the automobile industry. There is no unanimity in designating less expensive from higher priced cars made by the same manufacturer.

A grading system should include the number of grades recognized. For example, in grading eggs, they may be divided into either three or five qualities. The mark *C* means a very different thing when there are five grades than when there are only three.

Many items, as pointed out above, deteriorate in the lapse of time. Grade *C* coffee fresh from the roaster would be preferred by most people to grade *A* which has been in storage for a year. One firm dates its coffee to ensure freshness. If all products which deteriorate with the passing of time were dated when packed, the degree of freshness would be shown, but the cost of such dating would be a considerable item of expense to most manufacturers.

After grades were established, what would be done for the enterprising manufacturer who brings out a product definitely superior to grade *A*?

The above should be taken by the reader as an explanation for the slow progress that grade and other informative labeling has made. In no sense are the difficulties mentioned to be regarded as arguments against it. Furthermore, manufacturers of quality goods should not be charged with lack of cooperation by their consuming public because they have not gone further in adopting informative labels. It is also true that many advertisers regard their trade-marks as designating the No. 1 or *A* grade.

Active Organizations in the Movement.—In the pages which follow this paragraph, there is a tabulated list (Table 17) of the different associations and businesses which are performing some service pertinent to the consumer movement. An honest attempt has been made to give these a fair enumeration. The write-up for each one has been taken from a study which Werner J. Gabler made for the American Retail Federation. The conclusions and some of the descriptions have been materially changed from the original, so the authors should be held responsible for any statements made regarding the movement rather than the original source.

The consumer movement, we repeat, seems to concentrate on three points: more descriptive labeling; labeling with grades of

(*Text continued on page* 483.)

TABLE 17.—ORGANIZATIONS ACTIVE IN THE CONSUMER MOVEMENT
Educational Groups

Name of organization and date started	Size of membership	Type of membership	Consumer activities
Institute for Consumer Education (Alfred P. Sloan Foundation) 1936	No membership		To carry forward whatever educational developments promise to be the most helpful to rank-and-file consumers, both as individuals and as members of an advanced economic community. Established a well-equipped consumer library open to anyone interested. Established consumers' course at Stephens College. Established consumers' clinic for students and adults. Prepares school study materials and adult study materials. Publishes a monthly news letter during the school term. Is preparing a series of booklets on consumer problems. Sponsors educational research projects. Organized a national conference of leaders in consumer education.
National Education Association of the United States	48 state, 4 territorial, and 700 local teachers' associations with an affiliated membership of 775,000 teachers	Professional teachers	Has compiled and distributed to its members a number of bibliographies on consumer education and consumer cooperatives. Reports case histories of consumer education activities and courses in its publications and stimulates the interest of its members in consumer education. Publishes *The Journal of the National Education Association of the United States.*

TABLE 17.—ORGANIZATIONS ACTIVE IN THE CONSUMER MOVEMENT.—(*Continued*)

General Organizations

Name of organization and date started	Size of membership	Type of membership	Consumer activities
General Federation of Women's Clubs 1890	2,250,000 individuals in 14,531 clubs	Women's clubs	Represented on the Advisory Committee on Ultimate Consumer Goods of the American Standards Association. Unites public opinion to work for voluntary adoption by manufacturers of standards and informative labeling. In cooperation with the Consumers' Counsel Division of the A.S.A., it broadcasts a weekly discussion of consumer problems over a nation-wide hookup. It is affiliated with National Consumer-Retailer Council.
American Association of University Women 1882	61,662 individuals in 845 local chapters	Local clubs composed of college women	The study guide, "Scientific Consumer Purchasing," sometimes referred to as "the best study guide on consumer problems available for adult study groups," has been used by more than 250 local groups within the Association and by a number of other organizations. It analyzes the position of the consumer buyer in our present-day economy, gives the sources of consumer buying information, and suggests plans for the study of particular commodities.
National League of Women Voters 1920	48,000 individuals in 31 state leagues made up of 557 local leagues	State and local women's leagues	Interest in the consumer field is confined to governmental relationships to consumers. The League is not concerned with the broad field of "consumer education," such as instructions for buying.

TABLE 17.—ORGANIZATIONS ACTIVE IN THE CONSUMER MOVEMENT.—(*Continued*)

Professional Organizations

Name of organization and date started	Size of membership	Type of membership	Consumer activities
American Home Economics Association 1908	70 000 in 1,979 local and student clubs	Home-economic students and teachers, also business women	Advocates the labeling of staple fabrics with quality specifications, and emphasises the need of testing consumers' goods Consistently supports legislative measures involving the principles of honest merchandising and problems directly influencing consumer interests Affiliated with National Consumer-Retailer Council Represented on the Advisory Committee on Ultimate Consumer Goods of the American Standards Association
National Congress of Parents and Teachers 1897	2 250 000 individuals	Local associations composed of teachers and parents of school children	Active in regard to all problems of the home and homemakers' consumer problems Holds regular homemaking conferences Publishes *Parent Teachers Magazine* Represented on the Advisory Committee on Ultimate Consumer Goods of the American Standards Association.
National Federation of Business and Professional Women's Clubs 1919	70,000 individuals in 1,600 clubs	Clubs made up of business and professional women	Current program includes the study of factors which have produced unemployment and the effect of unemployment on consumers, of pressure groups and conflicting interests in the United States, and of the advisability of governmental regulation of business and industry

TABLE 17.—ORGANIZATIONS ACTIVE IN THE CONSUMER MOVEMENT.—(*Continued*)

A Religious Organization

Name of organization and date started	Size of membership	Type of membership	Consumer activities
Federal Council of Churches of Christ in America 1909	24 religious denominations with about 20,000,000 communicants	Church congregation	Holds field conferences concerning consumer problems. Distributes consumer educational literature. Advocates consumer cooperatives

Independent Organizations with Consideration of Consumer Problems as Their Sole Purpose

Name of organization and date started	Size of membership	Type of membership	Consumer activities
Consumers' National Federation 1937		Consumer organizations and individuals	To act as a clearinghouse for consumers' organizations and to conduct a general educational and information service on consumer problems. Studying development of consumers' organizations in order to identify the consumer and to establish criteria by which bona fide organizations may be identified. To exchange and disseminate information among members relating to all questions affecting the consumer interest. Has as one of its objectives the establishment of a Central Consumer Agency in Federal and state government. Recently published an organizational survey of the consumer movement. Publishes *The Consumer*, which analyzes the consumer's position with regard to current legislation and reports the new developments in consumer activity. Holds annual conferences for the discussion of their activities.
United Conference on High Cost of Living 1935		Individuals mostly in lower income groups	Its purposes are to unite churches, fraternities, trade unions, civic organizations, and women's clubs to a program of consumers' education and

TABLE 17.—ORGANIZATIONS ACTIVE IN THE CONSUMER MOVEMENT.—(*Continued*)

Independent Organizations Interested in Consumer and Labor Problems

Name of organization and date started	Size of membership	Type of membership	Consumer activities
National Consumers' League 1899	Composed of 15,000 individuals through its affiliated state leagues and local committees	Individuals and local leagues made up of consumers	Investigates conditions under which consumers' goods are produced. Coordinates activities of local consumer leagues. Arouses consumers to a realization of their responsibility for conditions of employment and of their duty to purchase goods produced under satisfactory labor conditions.
League of Women Shoppers 1938	25,000 individuals in affiliated local leagues. League is nonpartisan	Local leagues of women shoppers	The consumer purpose is to investigate conditions under which goods are made and sold; to use purchasing power to improve conditions of labor; in general, to raise living standards; to educate members to its program; to back legislation which will improve working conditions. It investigates labor difficulties. Results are publicized and action taken in cases where findings warrant the League's support. It conducts an education program through lectures and study groups. The New York League publishes *The Shopper* which has a circulation of 11,000. Each local issues news letters and reports to its members. The Legislative Committee of the League publishes bulletins and reports.

TABLE 17.—ORGANIZATIONS ACTIVE IN THE CONSUMER MOVEMENT.—(*Continued*)

Name of organization and date started	Size and type of membership	Consumer activities
The National Consumer-Retailer Council 1937	Membership: representing the Consumer American Home Economics Association: 14,170 members in 52 state and territorial associations and 2,305 local and student clubs with approximately 80,000 members. This membership also includes nearly 10,000 teachers of home economics in high schools and colleges and many of the 2,560 Home Demonstration Workers of the Extension Service. It is estimated that the thinking of over 1,000,000 families is influenced by members of this association The American Association of University Women: 61,662 members, 845 chapters in cities and towns throughout the 48 states. More than 300 of these local chapters are studying consumer problems General Federation of Women's Clubs: 2,250,000 members, 14,531 local clubs. It is developing a strong consumer education program Membership: Representing Retailers National Retail Dry Goods Association: 5,600 retailers, mostly department stores, specialty stores, and chain stores American Retail Federation: About 200,000 members, including 27 state federations and 7 national associations. National Association of Food Chains: 120 companies, 50 per cent of the nation's food chain business National Shoe Retailers Association.	*The Council Program* The Council program is carried out by committees composed of representatives of consumers and retailers and, where their particular interests are involved, national associations of advertisers and manufacturers. Representatives of Federal agencies and individuals whose expert advice is required may also be asked to serve. Informative Labeling: Definition of the type of information needed on commodity labels to make more efficient the buying and selling of consumer goods. Practical help and cooperation to manufacturers and retailers interested in improving their labels. The Council publishes a manual on informative labeling. Promotion of Standards: 1. Educational work to promote an understanding of the value and use of existing and proposed standards for consumer goods among consumers, distributors, and manufacturers. 2. Financial assistance to provide technicians necessary to further the work of the Advisory Committee on Ultimate Consumer Goods of the American Standards Association. Store Program: Bringing to the attention of retailers what progressive stores are now doing to improve the technique of buying, advertising, and selling and to develop a local customer relations program. A store program manual will show how each divisional head can put such technique into operation in his

TABLE 17.—ORGANIZATIONS ACTIVE IN THE CONSUMER MOVEMENT.—(*Continued*)

Name of organization and date started	Size and type of membership	Consumer activities
		division and how his efforts can be coordinated with the store program as a whole. Customer Program: Developing technics for local consumer groups to enable them to attain a better meeting of minds between their members and local merchants on mutual problems regarding the buying and selling of merchandise. These activities are coordinated closely with those of the Store Program. Test campaigns are now being conducted in two cities to determine the effectiveness of the suggested program. Advertising: Bringing to the attention of manufacturers and retailers the value of the use of more truthful and factual information in advertising by inaugurating test campaigns—both retail and national—which will incorporate the kind of information asked for by consumers. Customer Abuses of Store Services: Encouraging practices which will tend to reduce abuses of such privileges as customer accounts, returns, deliveries, and similar services. The first job: a manual suggesting how "returns" can be reduced. The fact that this work was undertaken at the insistence of the consumer representatives illustrates the constructive nature of their cooperation and should result in a growing number of customers working with retailers to help reduce the return-goods problem and thereby help to reduce the cost of doing business. Miscellaneous: Organization of a valuable library of information. A Research Committee and several special committees have been organized to handle various other phases of the Council's program.

TABLE 17.—ORGANIZATIONS ACTIVE IN THE CONSUMER MOVEMENT.—(*Continued*)

Consumer-financed Testing, Information, and Rating Services

Name of organization and date started	Circulation	Type of membership	Consumer activities
Consumer's Research 1927	60,000	Open subscription	Tests and reports on consumers' goods and services. Publishes *Consumer's Research Bulletin*, in which products are rated by brand names as "recommended," "intermediate," or "not recommended." Also publishes an annual buying guide. Recommendations are the opinions of publishers often given without reasons.
Consumers Union	80,000	Open subscription	Tests and reports on consumers' goods and services in an attempt to educate consumers to become better buyers. Publishes *Consumers Union Reports*, in which brands are named and products are rated as "best buy," "acceptable," and "not acceptable." Recommendations are often given without reasons. Also publishes an annual. *Buying Guide.* Works and cooperates with groups and organizations having a legitimate consumer interest. Advocates consumer cooperatives.
Inter-Mountain Consumers' Service 1932		Open subscription	Publishes *Consumers' Buying Guide*, issued in installments during the year, which contains price-quality ratings, based on tests and the findings of experts, on a wide variety of commodities; offers a special testing service to consumers at a rate of $2 or more per commodity; provides lecturers on subjects in the field of consumption and on the consumer movement in its relation to business, advertising, etc.

TABLE 17.—ORGANIZATIONS ACTIVE IN THE CONSUMER MOVEMENT.—(*Continued*)

Testing, Approval, and Information Services Operated Professionally or in the Interests of Business

Service	Sponsor	Consumer activities
Good Housekeeping Institute and Good Housekeeping Bureau Established 1901	*Good Housekeeping* Magazine	Have testing laboratories and other facilities for developing and publishing in *Good Housekeeping* Magazine information for consumers, including the selection, use, and care of consumer goods. Maintain free testing services for testing nonadvertised as well as advertised consumer products. The testing scope is limited to foods; cosmetics; a narrow category of pharmaceutical supplies, such as tooth pastes, mouthwashes, and mineral oils; household appliances and equipment used in the kitchen and laundry and general cleaning and care of the house; and household (laundry) soaps and scouring cleansers. Award "Seal of Approval" to products within the testing scope which meet testing standards. Supply consumers with free lists of tested and approved products. Invite for adjustment consumer complaints about products which have been tested and awarded seals of approval. Testing standards and procedures are available. In litigation with FTC.
Parents' Magazine Advisory Service	*Parents' Magazine*	Issues "Seal of Approval" to companies whose products are certified and approved by the *Parents' Magazine* Advisory Service. When it is believed to be advisable products are tested by chemical, biological, or mechanical laboratories or put to practical-use tests in homes with children.
A.M.A. Seal of Acceptance	American Medical Association	The A. M. A., through its Council on Pharmacy and Chemistry, sets up standards for proprietary and unofficial preparations to determine whether or not they are correctly stated. It has also established minimum standards for certain advertising of foods. When advertising is found to be consistent with the nature of the food the producer is permitted the use of a label stating that the food is "accepted by the

TABLE 17.—ORGANIZATIONS ACTIVE IN THE CONSUMER MOVEMENT.—(*Continued*)

Service	Sponsor	Consumer activities
		Council on Foods of the American Medical Association."
A.D.A. Seal of Acceptance	American Dental Association	Grants a "Seal of Acceptance" to products, the advertising claims for which are acceptable by the council. Provides a list of accepted dentifrices and informative articles on mouth washes, denture cleaners, and denture adhesives. Listed drugs and preparations are those which are considered to be of greatest usefulness in the field of dentistry and nonofficial articles marketed in conformity with the rules of the Council on Dental Therapeutics. No article is listed unless its composition is published
Household Science Institute	Hayes, Curry, and Company	Offers guidance in the establishment of authoritative standards and discriminatory buying practice. Sells a "Seal of Approval" to those companies whose products have been tested and approved.
Informative Labeling Foundation of America	Byron G. Moon Company	Plan set up as a public trust, controlled financially by a board of trustees appointed by manufacturers who establish fellowships in the foundation. Plan must be passed upon by the Co-ordination Council and the Textile Education Consumer Committee. The former composed of scientists in the textile field, technicians, representatives of retail groups and testing laboratories and others. The latter is a body of consumers representing large consumer groups.
American Consumer	Consumer Publications, Incorporated (Crump Smith)	Publishes a monthly illustrated magazine for consumer-buyers containing information of interest to consumers.
Better Buymanship and Money Management Bulletin	Household Finance Company	Aids the consumers to become better buyers through its publications *Better Buymanship* and *Money Management*. These bulletins contain information of direct consumer interest on various commodities.
Fact Bulletins	Better Business Bureau	Publishes "fact booklets" on business, merchandise, and financial subjects

TABLE 17.—ORGANIZATIONS ACTIVE IN THE CONSUMER MOVEMENT.—(*Continued*)

Service	Sponsor	Consumer activities
		to aid the consumer in his everyday relations with business. Has been working for many years through the Better Business Bureau on a four-point program, which includes: 1. Fraud prosecution. 2. Fraud prevention. 3. Consumer education in money management, in buying, and in the care of merchandise. 4. Promotion of fair advertising and selling practices.
Consumer's Bureau of Standards	Albert Lane, Individual	This organization sells and distributes a publication purporting to list and grade certain consumers' goods sold and distributed throughout the U. S. The FTC has issued a complaint stating that the representations, extent, and purpose of the business are grossly exaggerated, misleading, and untrue.
Industrial By-product and Research Corporation		Independent testing laboratory working primarily on textiles. In some cases grants "Seal of Approval." Works primarily for retailers and some manufacturers.
U. S. Testing Laboratory		Independent testing laboratory which established branches in different stores. Frequently grants "Seal of Approval."
Better Fabrics Testing Bureau		Official testing laboratory for N. R. D G. A. Works primarily with textiles and awards a "Seal of Approval." Best known through "Crown Tested" seal.
Hatch Textile Research, Incorporated		Independent laboratories specializing in the testing of textiles. Active primarily in the New York area.
Electrical Testing Laboratories, Incorporated		Independent laboratory specializing in electrical equipment, bulbs, household appliances, etc.

(*Text continued from page* 472.)

quality; and further consumer education. In the case of many of the firms and associations listed, the contribution to any of these is extremely limited. The American Home Economics Association is certainly doing an excellent job in carrying forth the consumer education, which, to the authors, is a broader under-

standing of the different goods and the services which they are expected to provide consumers. While such public-spirited citizens as E. A. Filene and Byron G. Moon have contributed most generously to furthering this general scheme of education, as yet their results are not of great value. However, their contributions are still active and are being conducted on a high plane without prospects of material profit to anyone connected with them. With further experience and further study they may be expected to make worth-while contributions.

Just what may be expected to result from the Sloan Foundation as it conducts the experiment at Stephens College remains a speculation. The first convention, held in 1939, was destructive of the principles and the ideals of business rather than otherwise, in the minds of the authors. The principal speakers seemed to have been chosen with an idea of promoting attacks on business very subtly but with great persistence. The attitude of these speakers was that it was really too bad but, with the present form of government and the present system of private ownership, one couldn't expect anything better. It is to be hoped that, as other conferences are held and the scope of the discussions broaden, this attitude of negative criticism will be altered.

A thorough education and understanding of goods and of the business activities necessary to their distribution, which might well be included as part of consumer education, we believe in the long run will correct the most serious of the difficulties and misunderstandings now encountered. Most businessmen, and especially manufacturers, do not want to ignore the wishes of the great part of their customers. The urgent problem is for a closer understanding between the two. Consumers need to appreciate how eager manufacturers are to serve them and the manufacturers need to have a means of securing a clearer understanding of what is desired by their ultimate customers. Marketing research is the most hopeful single means of business to bring about this result that is apparent at the present time. Indeed, it was the consumer research done by manufacturers which gave the consumer movement a great impetus, if it did not start it.

Consumer Activities of the Federal Government.—The various activities of the government having directly to do with consumers are described briefly in the following paragraphs.

The Consumers' Counsel of the Department of Agriculture was established in 1933 and has grown in importance with the passing of time. It has a dual purpose. First, it represents the public as consumers of farm products at all hearings of agricultural products in the department. Second, it collects and disseminates information of interest to consumers including prices and standards. Among its activities is the publication of *Consumers' Guide*, which has a free circulation of 135,000, and it is unable to supply 5,000 extras for which it has requests each month.

The Consumers' Counsel of the National Bituminous Coal Commission was established by an act of Congress in 1937, the only consumers' counsel yet established in this way. It was appointed by the President with the advice and consent of the Senate. The Coal Commission and the Consumers' Counsel were abolished by the second reorganization plan of May 9, 1939, and their functions transferred to the Department of Interior.

The Bureau of Home Economics in the Department of Agriculture was established in 1923, and devotes its entire energies to the solution of consumption problems. Its major activities are research and education. Its research is directed toward the collection of facts on consumers' expenditures at different income levels, toward the development of grade and standard of quality from the consumers' point of view, and toward means of making practical use of existing standards. Its educational activities consist of the dissemination of its research findings, designed to educate the consumer in better buymanship and better use of products. This is accomplished through publishing books and pamphlets in the three major fields of consumer purchases—food, textiles and clothing, and household and kitchen utensils. The Bureau has just completed a major study on measurements of children to serve as a basis for establishing size standards for children's garments. The publications of the Bureau of Home Economics have nation-wide distribution and serve many consumers' groups and schools as instruction material in consumer education. The standard of quality of the material is beyond question according to many users.

The Consumer Standards Project, formerly the Consumers' Project and heretofore under development by the Department of

Labor, is now being developed by the Consumers' Counsel Division of the Agricultural Adjustment Act. Its major function today is research and education. The activities of the project involve the collection of data and the preparation of a report on laws, regulations, trade practice rules, and commercial standards now used to describe the quality and form of consumer goods, the tabulation and analysis of a survey of information desired on labels, the study of weights and measures laws and administration, and the study of the relation of meat grades to the palatability of meat. Its major educational activities consist of the dissemination of the findings of its research and of publications to guide the establishment of cooperative purchasing organizations.

Grading of Canned Fruits and Vegetables.—In no other activity connected with the consumer movement has the government done so much in preparing grades as in this field. A special bulletin, revised in January, 1940, describes this in a series of questions and answers which are reproduced in the following pages. It is this service that is so extensively used by Consumer's Research and Consumers Union; then the results are broadcast to members.

Fundamental Considerations

What is the Farm Products Inspection Law?

It is the provision carried in the annual appropriation act for the United States Department of Agriculture authorizing the Secretary of Agriculture to investigate and certify to shippers and other interested parties the class, quality, or condition of certain farm products including fruits and vegetables.

Does the law require all farm products to be graded?

No, it is permissive—not mandatory.

Who may make use of the service?

Any person who is financially interested in a lot of canned fruits or vegetables may request that they be officially graded.

In what form are the results of grading reported?

Official certificates of grade are issued by official graders.

Of what force and effect are the certificates in court actions?

By the terms of the law the certificates issued by the authorized agents of the Department of Agriculture are admissible in all courts

of the United States as prima facie evidence of the truth of the statement therein contained.

What purposes are served by certificates of grade?

Two of the more important purposes are that they serve as documentary evidence of grade to accompany warehouse receipts in financing operations, and that they serve as proof of grade to accompany shipping documents in making delivery.

What prepared fruits and vegetables may be graded?

Any fruits or vegetables that are packed in hermetically sealed containers and have been sterilized by heat.

According to what standards are canned fruits and vegetables graded?

On official or on tentative standards for grades, or on other standards for the purpose.

Are official graders Government employees?

Yes.

What are the qualifications of an official grader?

In addition to certain scholastic requirements, graders generally must have had not less than 6 years of experience in responsible positions in connection with either the production or the merchandising of canned fruits and vegetables.

How Sampling Is Accomplished

On what basis are official certificates of grade made?

On the basis of representative samples.

Does the Department of Agriculture prescribe how samples shall be drawn and the number to be drawn?

Yes. For example, 24 cans of no. 2 size are drawn at random from a lot of 1,000 cases.

Does the grader certify to the drawing of the samples?

Yes, when the samples are officially drawn.

Form of Certificate Issued

What form does the certification assume?

The exact language is, "I certify that in compliance with the regulations of the Secretary of Agriculture governing the inspection and grading of canned fruits and vegetables pursuant to the act making appropriations for the U. S. Department of Agriculture I personally

drew at random and graded samples of the lot of canned fruits or vegetables described below and that the quality and conditions as shown by the samples on above date were as stated below."

Are all 24 cans from a lot of 1,000 cases graded?

No. Twelve cans are taken at random from the sample and are graded. The remaining 12 cans are retained by the grader under lock and key, to be used later in event occasion arises necessitating a review of the original grading.

What becomes of the samples thus retained?

The "check" samples, as they are called, remain the property of the applicant, and will be returned to him whenever he indicates that the sale of the lot from which they were drawn has been completed and that there is no further use for them.

Does the grader certify facts aside from grade?

Yes. The grader will reflect any facts that are necessary to give interested parties an accurate description of quality and condition of the samples, and every factor having a bearing on the value of the lot.

Will the grader certify to the condition of the tin containers, the labels, or the shipping containers?

Yes. The grader will reflect in his certificate all pertinent information having a bearing on the value of the goods; for example, whether the cans, or labels, or shipping containers are damaged and, if so, to what extent.

Cost of This Grading

Is a fee charged for the service?

Yes. The Congress requires that a fee be charged to reimburse the Government as nearly as may be for the actual cost of the service.

If a grader draws the samples and grades the samples, what fee is charged?

The basis is $5 per carload. Any expense allowable by law and incurred by the inspector while absent from his official station are also charged to the applicant.

Is it necessary for samples to be drawn by an official grader?

No. Samples may be submitted by anyone to an official grading office.

Is the form of certification the same whether the samples are drawn by an official grader or not?

No. If samples are drawn by someone other than an official grader, the certificate covers the grade of the samples only, and since the grader has not drawn the samples, he indicates on the certificate from whom the samples were received.

Are provisions made for grading large quantities at reduced rates?

Yes, under certain conditions. Since fees are to be so assessed as to cover the cost as nearly as possible, if the applicant's volume is such that, under the conditions he will offer it, the business can be handled at less expense to the Government, then grading may be done at reduced rates.

What rates will then apply?

If any applicant signifies his intention to have 50 gradings made at any one office during the 12-month period following the date he signifies his intention, at the conclusion of 50 gradings a refund of 25 per cent is made to him. On 1,000 gradings, the refund is 33⅓ per cent.

When someone other than an official grader draws the samples, is the fee for grading the same?

No. The fee is $3 for grading a 12-can sample of no. 3 size cans or smaller.

Does the Department retain a check sample of the cans drawn by someone other than an official grader?

It will, if requested by the applicant.

Official Samplers Are Licensed

Does the Department suggest that samples always be drawn by one of its graders?

No. This is not necessary in many instances. Disinterested persons, such as employees of public warehouse companies, are in position to draw samples correctly at random from lots they are unloading.

Is provision made for the licensing of official samplers?

Yes. Financially disinterested parties may be licensed by the Secretary of Agriculture as samplers.

Does the Department assess a fee for the issuance of such licenses?

No.

Who may be licensed as a licensed sampler?

Any person of legal age, of good report, who is not interested financially in merchandise to be sampled by him, who agrees as a condition to the issuance of his license to comply with the sampling rules of the Department.

Does the licensed sampler collect a fee?

He is authorized to collect personally a fee not exceeding $1 for each sample of 24 cans drawn, or $1.50 if two samples are drawn at the same time.

Does the licensed sampler issue a certificate of sampling?

Yes.

Does it become a part of the certificate of grade?

The sampler's certificate is issued in quadruplicate. The original and two copies accompany the sample to the grading office. The original is attached to the original certificate of grade. The certificate of grade makes reference to the certificate of sampling, indicating the source of the sample.

How are samples drawn by licensed samplers shipped to grading offices?

In such manner as the applicant may direct and at applicant's prepaid expense.

What classes of persons does the Department consider "disinterested" and satisfactory for licensing as samplers?

Employees of bona fide public warehousemen or banks, and station agents of railway and bus companies are examples.

Who are usually "financially interested" and entitled to the use of the grading service?

Canners, brokers, bankers, wholesale grocers, retail grocers, and managers and buyers of chain stores are examples.

Are investigations made to ascertain whether applicants are entitled to service?

Yes. The official grader of whom request is made for grading ascertains whether applicant is entitled to service before grading. Possession of canned foods usually indicates a sufficient financial interest but this is not always conclusive.

Official or Tentative Grades Used as Basis of Certification

For what canned fruits and vegetables are official or tentative standards for grades now in effect and used by the grading service?

Apples, applesauce, apricots, red sour pitted cherries, sweet cherries, grapefruit, grapefruit juice, peaches, pears, and plums, asparagus, dry beans, lima beans, snap beans, beets, carrots, cream-style corn, whole-grain-style corn, mushrooms, okra, peas, black-eye peas, pimentos, pumpkin, sauerkraut, spinach, succotash, sweetpotatoes, tomatoes, tomato catchup, tomato juice, and tomato pulp.

Are the grades developed to serve the interests of any particular group?

No. The grades are developed to serve the interests of producers and/or canners, financing agencies, distributors, and consumers.

What procedure obtains in the development of grades?

A study is made of the qualities actually being produced in typical canneries in all parts of the country. Studies are made of trade and consumer preferences and the grades are so drawn that each grade represents clearly distinguishable differences in monetary value.

Interests of Consumers Served

In what way is the interest of the consumers served?

The simple nomenclature, when shown on labels, should afford a valuable guide to the housewife in making purchases. The nomenclature employed in the grades is very simple, "Grade A," "Grade B," "Grade C," and Off-grade or Substandard. The last group in some commodities, for example, canned peaches, is divided into four additional grades, "Grade D," "Grade E," "Grade F," and "Sample Grade."

What is the purpose of these designations?

To provide a simple means by which the various qualities or types can be readily distinguished.

Are these new terms?

They are comparatively new, so far as canned foods are concerned. The trade is gradually coming to use them as the members become more familiar with the purpose of the grades.

How do the terms compare with terms used in the trade?

"Grade A" is synonymous with the trade term "Fancy"; "Grade B" with the trade terms "Extra Standard" or "Choice"; and "Grade C" with the trade term "Standard."

Does the Department recommend that additional descriptive terms be employed to amplify grade terms?

Yes. Information indicating style of pack, variety, color, range of count of pieces or units, the number of servings, and any other

information appropriate for the product should accompany the statement of grade. For example, the labels of canned peas should accurately convey to the buyer the size to be expected in the can, if vacuum packed the label should so state, the number of servings should be indicated, and the type of peas, that is, whether of the early- or late-maturing sorts. Salt and/or sugar are commonly employed in packing many commodities and frequently a statement as to their presence is distinctly helpful, particularly to consumers who must bear in mind dietetic considerations when buying food.

What class of product is found in "Grade C" or Standard grade products?

Good quality, wholesome food. In this grade a large percentage of all canned foods is found. The raw products used in this grade may not be so carefully selected as to size, color, and maturity as in the higher grades. Products of this grade should sell at cheaper prices than products of the higher grades, but in many commodities the food is just as nutritious.

What class of product is found in "Grade B" or Extra Standard grade products?

In this grade will be found vegetables that are more succulent than those in Grade C; moreover, the fruit is better selected as to color, size, and maturity. Consumers find products of this grade to be very satisfactory for general household purposes.

In brief, what does the term "Grade A" imply?

Only the finest products may bear this term. The fruits and vegetables are very carefully selected as to size, color, and maturity. Incidentally, not a large proportion of canned products are fitted for this grade.

What factors are considered in ascertaining grade?

Different factors are involved for each commodity. For example, the grade of peas is ascertained chiefly by considering five factors: clearness of liquor surrounding the peas, uniformity of size and color of the peas, freedom from defects, tenderness and maturity, and flavor. In grading fruits the usual considerations are color, uniformity of size, freedom from defects, character of fruit, and flavor. An interesting difference in grading fruits and vegetables exists in that the young, tender, most succulent, immature vegetables usually grade highest, while the fully mature but not overripe fruits are usually most desirable.

When canned fruits and vegetables bear such grade designations as "Grade A" or "Fancy," what guarantee is there that the merchandise is of the grade claimed?

The guarantee of the party under whose name the goods are sold. The responsibility is thus placed under existing law. If goods are not of the grade claimed, the goods are subject to seizure for misbranding under the United States Food, Drug, and Cosmetic Act.

Are canned fruits and vegetables now being thus labeled?

Yes, and in increasing quantities.

Official Grading Serves Canners

In what way is the interest of the canner served?

The grades afford the canner a yardstick or pattern to which to pack. Standards for grades afford him a definite basis of sale on which to negotiate loans and to predicate contracts with buyers.

Does the Agricultural Marketing Service recommend the inclusion of official grade designations in contracts of sale?

Yes. The grade should always be specified in sales contracts.

Are there other points in addition to grade designations that should be included in contracts of sale?

Yes, differing for each commodity. Contracts covering canned peas, for example, should always clearly state the kind and size of container and size of peas, in addition to the usual considerations in consummation of sales such as terms, routing, labels, and swell allowances.

What may buyers and sellers of canned products do to avoid disputes in connection with the quality of deliveries?

A suitable statement covering this point now used in contracts negotiated by some sales agencies is as follows:

"In the event that dispute should arise as to quality, seller agrees to furnish, without expense to buyer, U. S. Department of Agriculture Canned Fruit and Vegetable Grade Certificate in substantiation of grade of delivery."

Do Government graders act as arbitrators if disputes arise?

No. Their only function is to determine and officially certify the quality and condition.

Public Warehousemen's Interests Served

Are public warehousemen entitled to have canned foods officially graded?

Yes. They frequently wish to know the grade and/or condition of the merchandise offered for storage. Some public warehousemen advance money to canners on canned foods stored with them.

Transportation Companies May Request Inspection

Are requests for inspections by transportation companies honored?

Yes. These companies may apply for inspection for condition and/or quality of canned goods offered for transportation or upon receipt from other lines or at destination. The certificates of grade afford an excellent basis for settlement of claims.

Wholesalers and Retailers Benefit

How do wholesale grocers or chain stores benefit when buying on grade?

They may select precisely the quality desired for their trade, by inserting their specific quality requirements in the contract of purchase. By insisting upon having their purchases meet a specified Government grade, or a certain average score within the grade, they can provide for uniformity of quality under their various brands.

Official Grading Service of Value to Bankers

How do bankers benefit by the grading service?

The grade certificates furnish disinterested evidence of the quality of canned products offered as security for loans.

How may this be accomplished?

By having each warehouse receipt or chattel mortgage on these products offered as collateral for loans supported by official certificates showing the grade of the identical merchandise hypothecated. The certificate of grade may be attached to the warehouse receipt, or the grade shown on the certificate may be stated on the warehouse receipt. Both the certificate and the warehouse receipt may be attached to the borrowers' note.

Does Federal law require that all warehouse receipts covering canned foods indicate the grade?

Only those issued by warehousemen licensed under the United States Warehouse Act must indicate the grade, and the grade statement

must be made in the terms of United States grades, if such grades are available. However, grade may be omitted upon request of the depositor in case the products are stored "identity preserved."

How is the quality indicated on other types of warehouse receipts?

Frequently, there is no evidence of quality. Some receipts are issued in which even the identity of the merchandise is in question as the receipt reads, for example, "1,000 cases *said to contain* canned corn" or "contents unknown."

Does the Department of Agriculture approve such practices?

It does not. Under the U. S. Warehouse Act, the regulations provide that each receipt shall disclose the identity and shall show exactly the amount and the grade, if determined, of each lot represented by the receipt.

Of what value is a statement of grade, whether on a certificate or a warehouse receipt, to the banker or the depositor in a warehouse?

The determination of grade by disinterested, competent parties in terms of official standards and the statement of such grade determinations on certificates or warehouse receipts afford the owner of the product and the banker a definite basis for a correct appraisal of the value of the product, enable the owner to sell his product for its fair value, and assist the banker to make a fair and intelligent loan to the owner in event he should desire to make a loan.

Will Federal graders recheck the grade and condition of hypothecated merchandise during the life of a loan?

Yes, at the request of financially interested parties, and at their expense.

Will Federal graders undertake to make an inventory of pledged merchandise for financially interested parties?

When Federal graders sample and grade large lots of canned foods on the premises of the owner, the resulting certificate indicates the exact location and quantity of the merchandise, as well as its grade and condition. If Federal graders make a recheck of the merchandise, they will of necessity have to recheck each item mentioned in the original certificate.

Institutional Buyers Assisted

Can municipal, county, and State purchasing agencies use the grading services of the Agricultural Marketing Service?

Yes, and some are already doing so.

Will the Agricultural Marketing Service grade "bid" samples for such organizations to ascertain whether samples meet the specifications on which bids were invited?

Yes.

Will the Agricultural Marketing Service grade delivery samples to ascertain whether proper delivery has been made?

Yes.

Will the Agricultural Marketing Service assist such purchasing agencies in drafting specifications to meet their peculiar needs?

Yes, under certain conditions.

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CHAPTER XXIII

Continuing Services

Marketing Information from Continuing Services.—The large number of inquiries received by the authors for such information as "Where can I find a book on the sale of paint?" "Is there anywhere that the cost of selling garden tools is published?" and "About how many stores are there in the country that handle golf balls?" makes it seem apropos to supply a list of sources of information that are available. These sources, as given below, are confined to a summary of the agents which provide data regularly for current marketing activities. To describe this information and indicate its sources is all that we can hope to do. A textbook is not the place to catalogue lists and addresses of firms. After their types of services have been described, we leave it to them to notify the business public through advertising in business publications as to the location of their places of business and the terms upon which they offer their services.

It will obviously be impossible to list all the sources, much less to describe them to the satisfaction of the ones who produce them. Information available from the various departments and bureaus of the Federal government at Washington is so immense, and the sources are scattered through so many offices, that no one person is familiar with all. One agent makes a business of looking up and reporting on data in the various archives. We are told that among her best customers are government officials who do not know where to go for information they believe to be available in Federal libraries and information files. This is offered as a vindication for the admitted inability of the authors to cover the whole field.

To secure information is only the first step. To verify and check the accuracy of new information is always highly desirable, but sometimes is impossible—at least impossible with the degree of thoroughness that gives assurance. Very little will be wholly accurate. Perfection is seldom found. Usually it is more important to recognize the significance of the information than to reduce the last 2 per cent of error. To get information is often sufficiently difficult, but to know all its implications and significance requires a higher degree of intelligence than is commonly found in the manager's office. It seems useless, or worse, to acquire records, statistics, and reports, however accurate and complete in themselves, when they cannot be definitely applied to some problem. "Now that you have the information, what are you going to do about it?" is a pertinent question. The authors will attempt to show some use for the information they list.

Continuing Services for Advertisers.—It is the purpose of this chapter briefly to review services which are provided for advertisers by various organizations and the purpose of which is to give an accurate trend of the results of advertising as shown in sales and as may be otherwise ascertained. Many of these services deal with advertising media and with ways and means of ascertaining the effectiveness of the advertising. This is far more then testing the effectiveness of a specific campaign. It has little to do with "copy testing" as that term is commonly used. Much of it is concerned with measuring circulation values. It is evident that such a survey might easily involve a consideration of periodicals, such as the annuals put out by the various industries. In order to avoid this, the review has been held as nearly as possible to those services that are performed continuously and reported at stated intervals. Publications will not be discussed except such as carry the report of the various services. Business magazines and yearbooks of various industries are, therefore, excluded.

It is also evident that research organizations and advertising agencies are continually making investigations and surveys which develop important marketing data. Most of those are not available to the public and are provided only by arrangement with the advertiser. They are outside these fields.

Traffic Audit Bureau, Inc.—With the improvement in advertising media and more accurate means of checking circulation,

those interested in outdoor advertising organized the Traffic Audit Bureau in order to keep step with the progress of the advertising business. The purpose of this Bureau is similar to that of the Audit Bureau of Circulations (known as the A.B.C.). It provides an impartial, scientific, and accurate evaluation of circulation of outdoor advertising plants. The Bureau is owned and controlled by three different corporations: the Outdoor Advertising Association of America, Inc., the Association of National Advertisers (commonly called the A.N.A.), and the American Association of Advertising Agencies (the A.A.A.A.). There are three classes of members: corporate, plant, and service. The first of these comprise the board of directors, which has general charge of the operation of the Bureau. There are 19 directors, nine of whom are appointed by the Association of National Advertisers, five by the A.A.A.A., and five by the Outdoor Advertising interests. Here, as in the A.B.C., the advertisers have a majority. The plant members are those who own and operate plants and service members come from advertising agencies, solicitors, or anyone else who has occasion to use the medium. The dues are so nominal that almost anyone may join.

The actual operation of the Traffic Audit Bureau is somewhat on the same plan as that of the A.B.C. The Bureau provides an audit of the principal plants periodically. It also requires the plant owners to make an audit regularly and submit this to the accountant of the Bureau.

The "net advertising circulation" is made up of a complicated formula, which includes half of the gross automobile and foot traffic and a quarter of the mass traffic, such as busses and streetcars. This is also modified by the location of the displays and takes into account any obstructions to the view of approaching traffic and all other conditions that might affect the ease with which the message might be read.

An annual report is published with the list of the principal towns and cities of the United States and Canada, giving the number of panels, both illuminated and unilluminated, the net advertising circulation for the city, and the cost of a representative showing. This annual report is also supplemented by reports sent from time to time, giving new or changed audits, information about new plants, and substantial changes in rates. The result is that an advertiser has an account of the outdoor

advertising circulation comparable in accuracy to that which is given by the A.B.C. or the radio services.

Checking Radio Circulations.—The striking difference between radio and other advertising is that the former is listened to rather than read. While this has many advantages, it also has a serious disadvantage. If one is not listening at the time the program is given, there is no record; it is lost to all who did not listen. The various broadcasting companies habitually give the number of radios within receiving distance of the broadcasting station as the potential audience. This very greatly overestimates the audience for obvious reasons. It is comparable to estimating magazine circulation as all the literate population able to buy periodicals.

In order to give a much-needed account on radio audience so that the number reached may be accurately compared with circulation of other media, services have been organized to give very definite reports on the number and habits of listeners. One of these is the Hooper Service. This is called the "coincidental method." During the time the broadcast is on and after the first 2 minutes elapse, investigators call on the telephone and ask the following four questions:

1. "Were you listening to the radio just now?"
2. "To what station were you listening?"
3. "What program is coming over that station?"
4. "What advertiser puts on that program?"

As soon as answers to these questions are received, other calls are made and are continued during the period of the program. After these are counted, classified, and analyzed, a report is prepared which shows the number of persons who were listening to the particular program, and the number who could recall the sponsor by name either of the advertiser or of the product which is presented. A comparison of these data with figures compiled for previous investigations indicates the popularity of the program, whether it is holding its own, increasing in popularity, or falling off. Recently this service has been improved so that reports can be made for each 5-minute period. This provides that a varied program running from 15 minutes to an hour can be analyzed so that each particular part is measured. If a considerable number tune in for a definite part of the program, as they might to hear

Richard Crooks sing, and then tune out, that would be revealed in the reports. In establishing areas for investigation, only cities were considered which could provide audiences for the Red, Columbia, and Blue networks. Adequate reception by each local network station within the interviewing area and a sufficiently large list of telephone subscribers so that there would be no repeat calls in the course of a year is essential. Each interviewer makes approximately 5,000 telephone calls a month. Careful study of the cities available revealed that the following 30 were the only ones which met all the requirements:

- Eastern time zone:
  - Eastern Section:
    - Albany[1]
    - Baltimore
    - Boston
    - Buffalo
    - Cincinnati
    - Cleveland
    - Detroit
    - New York
    - Philadelphia
    - Pittsburgh
    - Providence
    - Richmond
    - Washington
- Central time zone:
  - North Central section:
    - Chicago
    - Des Moines
    - Minneapolis-St. Paul
    - St Louis
  - South Central section:
    - Atlanta
    - Birmingham
    - Dallas
    - Houston
    - Memphis
    - New Orleans
    - Oklahoma City
- Pacific time zone:
  - Pacific section:
    - Los Angeles
    - Portland

[1] "Local service" on Red Network supplied from Schenectady.

San Francisco
Seattle
Mountain time zone:
Denver
Salt Lake City
Summary:
Eastern, 13 cities
North central, 4 cities
South central, 7 cities
Pacific, 4 cities
Mountain, 2 cities
"National," 30 cities

The significance of these cities in the field of marketing is obvious. They supply approximately 67 per cent of the population in the upper income brackets and they provide about 64 per cent of the total retail sales for the United States. It is apparent, therefore, that even without projecting these reports they give representative districts of a very considerable part of the country. However, the limitation is that all are strictly urban districts and cover only that part of the population supplied with telephones.

The Crossley Service.—A. M. Crossley was one of the first, if not the first, to provide a nation-wide check-up on radio listening. As the number of radios multiplied and the work expanded, the business was incorporated and is now known as Crossley, Incorporated.

Mr. Crossley summarizes the purposes of radio research as follows:

1. To measure the number of listeners, potential and actual, at a given time in the specific market for a given product. This makes possible the profitable fitting of the schedule to the individual market.
2. To measure buying actions that result from radio expenditures.
3. To discover the stimulus which produces the best result in a given market. This makes possible the profitable fitting of the program to the individual market.

Quantitative measures of the audience mean adequate coverage of the market's listeners, wherever they may be and wherever they may listen. None of the methods by itself does a complete quantitative measurement job. Each has limitations.

Determination of the most desirable program means much more than quantitative measures of set performance. It means also (1) a definite measure of conscious listening, and (2) application of qualitative research.

The nearest to the ideal method, therefore, combines at reasonable cost (1) the maximum of quantitative measures, (2) the maximum of qualitative measures, (3) the best possible measure of actual attentive listening, and (4) a measure of buying action when possible. These point ultimately to a combination of recorder and a variation on day-part (day-time program) interviewing.

No one method can be sufficient.

Mr. Crossley also lists the following 15 methods of research, all of which his company employs except the first:

1. Engineering signal-strength tests.
2. Signal-strength check by auto radios checked against homes.
3. Analysis of program mail
4. Mail questionnaires.
5. Coincidental method.
6. Day-part by telephone.
7. Day-part by personal call.
8. Printed roster by telephone (calling from prepared list).
9. Printed roster by personal call.
10. Mechanical recorder.
11. Follow-up.
12. Pretesting with audition recordings.
13. Panel or consumer jury.
14. Dealer inventory check on sales results.
15. Consumer check on purchases.

Crossley, Incorporated, conducts the field work by the day-part telephone method for the Cooperative Analysis of Broadcasting, a non-profit organization operating under the supervision of the American Association of Advertising Agencies and the Association of National Advertisers.

The Nielsen Reports.—A. C. Nielsen & Company prepare a system of reports which show actual sales of over 500 branded products distributed through grocery, drug, department, country general, and package liquor stores. These reports are made from data secured by a corps of specially trained accountants who visit some 4,000 stores carefully selected in different parts of the country. The distribution of these stores geographically and in cities of all sizes is supposed to present a highly typical cross section of the retail trade of the country at a given time. As the data are gathered every 60 days, the reports give a continuous clocking of the stream of branded merchandise going into the hands of consumers.

The stores are graded into four sizes: super, large, medium, and small. In all, 700 cities are covered and 2,000 stores in the food classification are audited. The cities are also of four sizes: over a million; 100,000 to 1,000,000; 10,000 to 100,000; and less than 10,000.

The information covered in the audit follows:

1. Name of product and period covered.
2. Purchases during period from all sources, both number of packages and invoice price.
3. All goods returned, both number of packages and dollar value
4. Inventories at beginning and end of period.
5. Customer sales in number of packages and dollars.
6. Coupons used; yes or no.
7. Window displays; yes or no.
8. Store displays; yes or no.
9. Special sales; duration and price reduction.
10. Total sales for the period.

Participating stores are given cash remuneration for opening records and otherwise aiding in presenting data that give as complete a picture as possible. This includes permission for accountants to take inventories and examine all invoices of purchases. Mr. Nielsen states that sales figures are 98 per cent accurate. In both food and liquor stores the number of transactions reaches 1,500,000 while in drugstores that number is more than doubled. Compared even with the most extensive field investigations, those numbers seem colossal. Seldom does a consumer research cover as many as 100,000. Aside from those conducted by the General Motors Corporation few ever reach more than 25,000.

With actual sales figures covering a sample carefully selected to represent the whole country, and consisting of 1,500,000 sales, the projected figures for total sales should have a high degree of accuracy. As stated above, sales records cover representative sizes of all stores and of four classifications of cities. The records are separate for independent, chain, and department stores. Further, all this information is kept as representative as such sampling permits for eight different sections of the country.

Summary of Information in Nielsen "Index."—Mr. Nielsen always refers to his reports as an "index." The scope of the information seems to the authors to be more inclusive than that usually included in this term; but as the principle of the sample is used, as it shows comparative conditions and sales for different

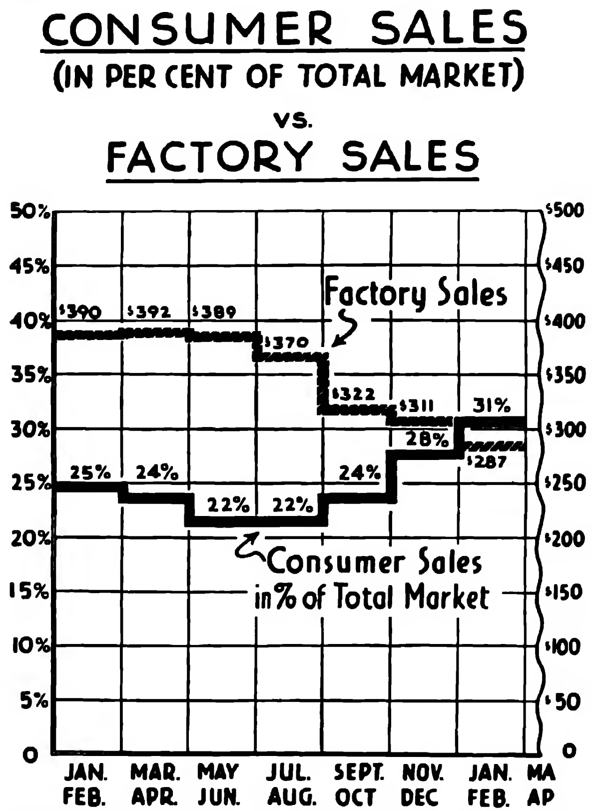
districts, cities, and stores, it is very definitely an index. In all these comparisons the reports show:

1. Sales to consumers for a 60-day period.
2. Purchases by retailers for the same period.
3. Retail inventories.
4. Stock turn for all the different classes and locations of stores.
5. Extent of distribution.
6. Wholesale and retail prices and margins.
7. Retail gross profit for the period.
8. Direct and wholesale purchases, with the amount of returned goods.
9. Size of average order for all transactions.
10. Dealer cooperation in making store and window displays and the general nature of each.
11. Total sales of all brands.
12. Total sales for each store and the percentage this item constitutes of the gross sales.

It gives the subscriber the same information on each of his competitor's brands as on his own product: seasonal variations, territories of greatest strength and greatest weakness, the classes of stores which are strongest and weakest, and consequently the effect of sales-promotion efforts in advertising or merchandising. Should a trial campaign be put on in a chosen territory its effect can be accurately determined before launching into an enterprise involving the expenditure necessary for a national campaign.

The results of any changes in copy appeals or media can be checked as soon as the advertising has had an opportunity to become effective. This will also be true of competitors' advertising, as records show the sales and variations in volume for all brands alike. One of the greatest values here is that instead of going to a dealer and asking him his opinion of your advertising you can go and demonstrate to him just what the effects of the advertising are. Retailers seldom know much about national advertising. They have strong prejudices and, if they think your campaign is weak, it will be difficult to get them to cooperate with any degree of enthusiasm. But show these same dealers that the campaign is promoting sales and they will join in the sales-promotion efforts in their own interests. One of the very difficult parts of advertising is to sell it to distributors. The salesman may be of great ability in selling goods, but very few know advertising well enough to be convincing in persuading others of its value, especially of the value of a particular

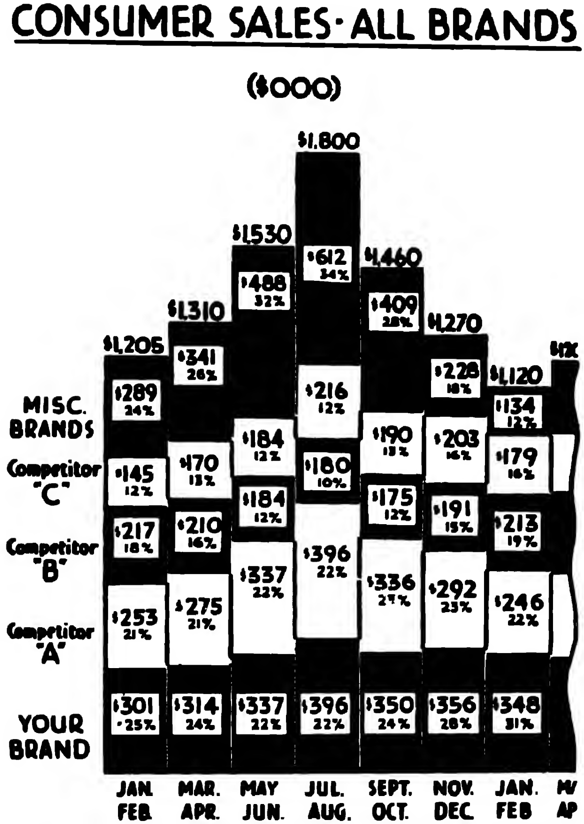
campaign. Definite, recent sales figures are overwhelmingly convincing.



This shows variations that may occur between the factory sales and actual sales to consumers during the same period

Conclusions from Nielsen Reports.—The data provided in these reports give a basis for forecasting sales that is of great value. One season can be compared with another and one year with another. Actual recent sales when compared with previous seasons indicate the trend. If the stores' total sales are less, then it is to be expected that the sales of most commodities will decline. If the product in question happily is not affected by reduced buying that pleasing information will be revealed in the data. If it follows the sales of the store, that also will be shown. In all cases a definite trend can be established, and,

when the record of sales covers a longer period of time, dependable relationships will be recognized. Your sales may precede,



This gives a comparison of sales for the same product selling under different brands

accompany, or follow a change of business conditions; the records will show. Further, the combined sales of the stores reported, when compared with past sales, will be as good an index of business as any developed.

When factory sales are good, it may be to replenish depleted stocks following heavy consumer sales. It is altogether possible that just at the time when retail sales were best, factory sales were slack; then, when inventories are replenished, factory sales improve, although consumer sales may be declining.

There is a definite lag in sales between the factory and the consumer. Goods shipped in January may not get into the home until March or April. It is important to know the average period of delay. It is even more important to know the definite lag in advertising. How long will it be after the January magazines are distributed before the effect of their advertising will be felt in retail stores? How much longer will it be before those sales result in orders to the factory? If an advertising manufacturer does not have this information it will be practically impossible for him to get a definite relationship between his advertising and sales. An accurate record of recent retail sales for a definite period will provide data in determining that lag. This will be especially true when the records are continuous for a number of seasons.

When different prices are prevalent, either reflecting different qualities or arbitrarily fixed with an eye on competition, the Nielsen reports, coming as they do from all sections of the country and from all classes of stores, definitely indicate what prices will "go" and what will not in the different territories. A dressed-up package may permit a price increase in one part of the country while in others it will turn customers to other brands. Larger packages may stimulate sales, or they may discourage buying. A continuing report of all sales accurately reflects the effect of new packages as well as correct pricing.

When he was Secretary of Commerce, Herbert Hoover aroused much interest by his comment that "sales efforts in any territory should be in proportion to sales possibilities." It is obvious that, with such information as that outlined above, no prescience is needed to determine where sales efforts may be made most profitable.

The Clark Magazine Service.—As distinguished from the computations of money and space (or time) prepared by the Publishers' Information Bureau, Inc., for the different magazines, different classes of products, and different advertisers, there are services which go into the field and investigate the effects of advertising on readers from different environments. The former is office work, the latter field work.

The L. M. Clark service consists of field reports secured by trained investigators. First, one of the popular magazines which this firm investigates is taken and the name of each advertiser

blotted out with neutral-colored ink. The trade-mark and name of the product when they would be too revealing are also obliterated. Then one of the investigators goes out and secures an interview. The first question ("Did you read this magazine last week?") starts the investigation. If the magazine has not been read, there is nothing to do but find another person to interrogate. If the magazine has been read the interviewer asks: "Have you seen this advertisement before?" as she exhibits one of the blocked-out advertisements. If the answer is "No," the page is turned and the same inquiry made of the next advertisement. If the respondent has seen it, he is requested to name the product and the advertiser. Sometimes the product is identified but the wrong advertiser named. Further discussion is calculated to bring out about how much and what parts of the advertisement have been read.

All interviews are then counted and tabulated. These show what percentage of both men and women have

1 Seen the advertisement.
2 Recalled correctly the name of the advertiser.
3. Believed it to be the advertisement of another firm.
4. Seen the advertisement and read each individual part, such as headline, sub-headline, illustration captions, continuity strip, body copy, etc.

This information has been widely used to compare the effects of picture and caption with continuity strip, fractional pages in color with black and white, man-in-the-street testimonials with those of celebrities, premium and contest compared with product display, and many others. It is obvious that this is not a method of testing competitive media. One advertisement may use the same display in a number of periodicals. Is it not apparent that a study of these advertisements will not reveal information on media? It is relatively simple to decide if one has seen an advertisement, but to recall where the display was seen is difficult, sometimes to the point of impossibility.

In magazines read by both men and women, 200 interviews from each seems to be a sufficient number to provide an accurate sample. With women's publications, 200 readers has proved ample. These numbers have been decided on after much investigation, and many tests (according to L. M. Clark). "To multiply the number three- or fourfold does not change the percentages."

In order to make the tests representative, the following 19 cities have been selected for interviews:

Atlanta, Ga.	Kansas City, Mo.
Baltimore, Md.	Los Angeles, Calif.
Boston, Mass.	Newark, N. J.
Chicago, Ill.	New York, N. Y.
Cincinnati, Ohio	Omaha, Neb.
Cleveland, Ohio	Philadelphia, Pa.
Dallas, Tex.	Pittsburgh, Pa.
Denver, Colo.	Rochester, N. Y.
Detroit, Mich.	San Francisco, Calif.
	Toledo, Ohio

The Clark Newspaper Service.—A new departure in the field is the checking of newspapers by L. M. Clark, Inc. The vast number of newspapers that are issued would seem to make reader analysis so baffling as to exclude any attempt to investigate the dailies with methods that have proved practicable with magazines.

The objects of the study as stated by the Clark Company are as follows:

1. To find out what proportion of each of the men and women readers look at each page of the newspaper. This is called "plotting the reader traffic of the page."
2. To find out what proportion of each of the men and women readers look at and read the editorial articles and national and retail advertising.

Only a few newspapers have been analyzed. First of all, the official report shows the number of men who look at each page. Then the page is considered in its component parts, and the number of readers of each item on the page is checked. The same process is carried through with the advertising. To undertake to analyze each issue of a large daily newspaper evidently would be impracticable, if not wholly impossible, so certain issues are taken and used as samples. Regular readers are interviewed when there is a series of advertisements in which subscribers of the service are interested. Issues containing those advertisements are selected for study. This gives comparative rating values for the different displays as influenced by illustrations, headlines, position on the page, and any other item which might tend to attract or repel readers. Since this service is scarcely 2 years old, it is still in its formative period and will

probably increase in use as time goes on. Owing to the newness of the idea, it is futile to make the description of the procedure too much in detail. There are sure to be changes in method as time goes on and as experience guides.

Services of Media Records.[1]—Media Records conducts an extensive survey and analysis of advertising in the newspapers of the United States and Canada. The results of this continuous service are published in

1. Media Records Blue Book, published quarterly about 25 days after the close of March, June, September, and December.
2. Media Records General and Automotive Advertiser Reports. Published monthly about the middle of the month following that in which data are gathered.
3. Media Records Retail Mention of National, Local, and Sectional Brands. There are weekly and monthly sections, issued about 8 days after the period reported on.
4. Newspaper Advertising Trend Charts. Published monthly and, in another edition, annually.
5. Media Records Special Research Reports. These are individual studies made for clients as ordered.

The first four of these services will be described in detail in the following section. The special reports cover a wide variety of subjects, it may be observed in passing. The material for these studies and the limitation of their scope are determined by the information secured from classifying, measuring, and analyzing newspapers. Some of the subjects covered may give an idea of the variety and extent of these special reports. Here are a few:

Continuity of advertising for a selected list of products in designated cities.

Text analysis of selected newspapers.

Advertising trends in newspapers compared to other media.

Special lists of leading retail advertisers by classification and by cities.

The Blue Book is a volume of approximately 300 pages presenting a quarterly cumulative record of 110 newspapers in the largest cities of the United States and Canada. Part 1 shows the advertising volume appearing in each newspaper in each of the 110 cities. Daily and Sunday linage are shown separately for each paper, and standard classifications are used in all cities and for all newspapers.

[1] From information furnished by Nelson H. Seubert, General Manager, *Media Records.*

These data, among other things, serve as a basis for selecting newspapers by the type and quantity of advertising carried; for estimating sales activity of definite retail groups by the amount of advertising done by each in specific markets. Thus a manufacturer in the drug or food field can know the advertising pressure exerted by his retail outlets and in what newspapers it is placed. He can also learn the extent of his own competition in each newspaper and gauge his effort accordingly.

Part 2 shows the newspaper advertising linage of each general (national) and automotive advertiser, arranged alphabetically by classification. The record of each advertiser shows the city in which he advertises, the papers used, and the amount of linage in each paper. This serves as a guide in determining the extent of competitive schedules, where they are being placed, whether or not they are using rotogravure, weekly supplements, or comic-section advertising, and to what extent.

The General and Automotive Advertiser Reports in the Linage section show the advertising linage for each product within a classification arranged by paper and city within the state and cover all daily and Sunday newspapers in cities of 10,000 population or more. There are 755 cities publishing 1,500 newspapers covered by this service. The reports also show by symbol the use of color, comic, and rotogravure. These data serve the same general purpose as Part 2 of the Blue Book, but cover 755 markets as against 110 and, because of the state arrangement, allow an advertiser to study his competition within state boundaries.

In the Space Value section appears the total value by states of space used for each product within a classification, but space values are not shown by city or paper unless special arrangements are made. The scope of this service is the same as the Linage Report service. It is a guide in determining competitive expenditures in newspapers and how appropriations are allocated geographically by states and also by months. It is a means of following monthly any radical changes that might be made by competitors in any part of the country. This information is also used for budgeting purposes of advertising and sales.

The report of National, Sectional, and Local brands gives in summary the number of brands of a particular product that were advertised by each retailer and the total linage used. The report also shows the number of times each brand was advertised and

the number of retailers advertising that brand and the total lines that each brand received. The brand name, the retailer advertising it, the name of the paper used, the date of the advertisement, the advertised price, and the amount of linage used are all given. This enables one to determine the extent of retail cooperation in pushing a product compared with competitive products. This shows up the price cutters. It is also used as a gauge of a salesman's efficiency in getting the cooperation of the retailer. If advertising by the retailer is contracted for by the manufacturer this service is used as a check against what the retailer claims to have given the manufacturer.

The Newspaper Trend Charts begin with January, 1928, and show the monthly trend of the major divisions of newspaper advertising, which has been prepared monthly. It is a simple bar chart showing the changes in retail, general, automotive, financial, total display, classified, and department-store advertising by months for the past 12 years. The grand total of all advertising and the per cent of gains or losses in each division are presented. It serves as a barometer of retail conditions and as a guide to newspaper advertising. In comparison a particular newspaper's business may be analyzed

Starch Advertising Rating Service. This survey is continuous and has been conducted without interruption since February, 1932. Highly trained women interviewers in each of 33 areas, within a radius of 100 miles of as many cities scattered from coast to coast, interview adult readers of the current issues of 19 leading consumer publications in their homes or places of business. Only women are interviewed with respect to "the women's service magazines"; men and women, on all the other publications in the group. The primary purpose of the survey is to determine which advertisements these readers have seen and how much of them they have read.

Readers are divided into three classes according to the amount of attention given each announcement: "Seen," "Read some," and "Read most." The questionnaire includes the various parts of the advertising which have been read. When the reports have been counted and tabulated in the office, the percentage of readership is computed for both sexes, for the advertising as a whole and for each component part. The cost of space in terms of readers is then computed. Neither total nor net paid

TABLE 18.—AGE-GROUP DISTRIBUTION OF READERS

The figures below should be read, for example, as follows 15 9 % of the interviewed men readers of *American Magazine* were between 18 and 24 years of age

Magazine	18–24 inclusive	25–34 inclusive	35–44 inclusive	45 and over
Men and Women Combined				
General monthly magazines				
American	21 0%	31 8%	24 2%	23 0%
Cosmopolitan	24 2	35 2	21 6	19 0
National Geographic	10 8	22 0	26 6	40 6
Redbook	27 1	33 8	21 9	17 2
True Story	33 9	32 5	18 5	15 1
Home-service magazines				
American Home	12 2	27 4	30 0	30 4
Better Homes and Gardens	12 4	29 3	27 7	30 6
Weekly publications				
Collier s	21 7	34 0	23 9	20 4
Liberty	24 4	32 9	23 9	18 8
Puck—The Comic Weekly	22 4	35 5	26 0	16 1
Saturday Evening Post	19 2	30 8	24 8	25 2
Time	18 9	33 1	24 9	23 1
Look (biweekly)	29 4	32 5	21 3	16 8
Men				
General monthly magazines				
American	15 9	31 8	27 2	25 1
Cosmopolitan	16 5	37 2	26 0	20 3
National Geographic	9 5	21 1	24 1	45 3
Redbook	20 2	35 8	26 6	17 4
True Story	27 1	36 3	19 2	17 4
Home-service magazines				
American Home	10 2	21 3	32 3	36 2
Better Homes and Gardens	8 4	25 9	31 3	34 4
Weekly publications				
Collier s	15 0	35 6	27 1	22 3
Liberty	15 8	34 1	28 4	21 7
Puck—The Comic Weekly	18 7	37 6	27 3	16 4
Saturday Evening Post	13 2	30 8	28 2	27 8
Time	12 5	31 5	29 7	26 3
Look (biweekly)	26 2	33 5	23 0	17 3
Women				
General monthly magazines				
American	25 3	31 7	21 8	21 2
Cosmopolitan	29 8	33 7	18 4	18 1
National Geographic	12 0	22 9	28 8	36 3
Redbook	32 3	32 3	18 3	17 1
True Story	38 2	30 0	18 1	13 7
Women s and home-service magazines				
Good Housekeeping	22 6	30 7	22 6	24 1
Ladies' Home Journal	24 6	28 2	21 7	25 5
McCall s Magazine	23 2	29 6	22 8	24 4
Woman s Home Companion	23 8	32 8	21 8	21 6
Parents Magazine	7 3	43 4	39 8	9 5
American Home	13 5	31 3	28 5	26 7
Better Homes and Gardens	15 1	31 7	25 2	28 0
Weekly publications				
Collier s	28 5	32 3	20 6	18 6
Liberty	32 5	31 7	19 7	16 1
Puck—The Comic Weekly	26 2	33 3	24 6	15 9
Saturday Evening Post	25 5	30 9	21 2	22 4
Time	25 3	34 6	20 2	19 9
Look (biweekly)	32 6	31 6	19 6	16 2

Information regarding *Parents' Magazine* throughout this report is based upon interviews for the three months' period December, 1938, and January and February, 1939, with regard to *American Home*, *Better Homes and Gardens*, and *National Geographic* the period is January, February and March, 1939.

NOTE The information presented in this table corresponds in form to that appearing in previous Consumer Magazine Reports It shows the percentage distribution of the readers of each of the magazines according to four age groups

Table 19.—Advertisement Rating Service—Current Issue Report
Life, April, 10, 1939, Men and Women Combined
Individual Advertisements in This Issue

Page	Size and color	Advertiser	Cost per time: Seen	Cost per time: Read some	Cost per time: Read most	Cost ratios and ranks: Seen	Cost ratios and ranks: Read some	Cost ratios and ranks: Read most
15	x	Kayser hosiery	$0.0019	$0.0025	$0.0090	247 (1)	228 (2)	306 (6)
75	x	Black and White Scotch	0.0020	0.0025	0.0254	235 (2)	228 (3)	108 (14)
87	xz	Columbia Pictures	0.0021	0.0021	0.0042	224 (3)	271 (1)	655 (2)
81	zb	Warner Brothers	0.0027	0.0027	0.0031	174 (4)	211 (4)	887 (1)
4	x	Pard dog food	0.0027	0.0037	0.0179	174 (5)	154 (7)	154 (11)
12	x	Toastmaster toaster and set	0.0028	0.0029	0.0097	168 (6)	197 (5)	284 (7)
4c	o	Coca-Cola	0.0030	0.0039	0.0287	157 (7)	146 (9)	96 (23)
11	x	Sal Hepatica	0.0031	0.0031	0.0047	152 (8)	184 (6)	585 (3)
3c	bo	Canadian Club whiskies	0.0036	0.0041	0.0202	131 (9)	139 (11)	130 (12)
34	bo	Four Roses whiskey	0.0036	0.0059	0.0276	131 (10)	97 (21)	100 (21)
2	x	Kellogg's All-Bran	0.0037	0.0039	0.0058	127 (11)	146 (8)	474 (4)
3		Woodbury's facial soap	0.0037	0.0043	0.0318	127 (12)	133 (13)	86 (25)
43	bo	La Salle	0.0039	0.0043	0.0255	121 (13)	133 (12)	108 (16)
59		United Brewers Ind Found.	0.0040	0.0041	0.0107	118 (14)	139 (10)	257 (8)
37	bo	Plymouth	0.0041	0.0044	0.0255	115 (15)	130 (14)	108 (17)
6	x	Sinclair Lubrication	0.0042	0.0054	0.0066	112 (16)	106 (20)	417 (5)
52	o	Gilbey's gin	0.0043	0.0061	0.0648	109 (17)	93 (24)	42 (33)
2c	o	Nash	0.0044	0.0046	0.0280	107 (18)	124 (16)	98 (22)
33	bo	Firestone Champion tires	0.0044	0.0082	0.0645	107 (19)	70 (31)	43 (32)
7	b	Hudson	0.0045	0.0046	0.0270	104 (20)	124 (15)	102 (19)
62	x	Playtex baby pants	0.0048	0.0048	0.0139	98 (21)	119 (17)	198 (10)
76	x	Bromo-Seltzer	0.0048	0.0050	0.0254	98 (22)	114 (18)	108 (15)
86	xz	Old Crow whiskies	0.0049	0.0124	0.0372	96 (23)	46 (37)	74 (28)
5	b	Chevrolet	0.0051	0.0052	0.0294	92 (24)	110 (19)	94 (24)
56	o	Martini & Rossi vermouth	0.0051	0.0080	0.0255	92 (25)	66 (33)	108 (18)
13		Dodge	0.0053	0.0061	0.0274	89 (26)	93 (23)	100 (20)
51	o	Havoline motor oil	0.00[illegible]	0.0063	0.0648	89 (27)	90 (25)	42 (34)
16		Heinz products	0.0056	0.0066	0.0218	84 (28)	86 (26)	126 (13)
61		All Year Club of South Calif	0.0060	0.0060	0.0119	78 (29)	95 (22)	231 (9)
46	o	Glenmore whiskey	0.0060	0.0077	0.0468	78 (30)	74 (30)	59 (29)
1		Cities Service dealers	0.0062	0.0075	0.0906	76 (31)	76 (29)	30 (37)
10		Wear-Ever aluminum	0.0063	0.0070	0.0318	75 (32)	81 (27)	86 (26)
44 5	2zb	Mobilgas	0.0063	0.0084	0.0890	75 (33)	68 (32)	31 (36)
55	o	General Squeegee tires	0.0070	0.0071	0.0886	67 (34)	80 (28)	31 (35)
14		Zonite-Barcelona castile shampoo	0.0088	0.0093	0.0906	53 (35)	61 (34)	30 (38)
54	x	Simoniz-Simoniz kleener	0.0097	0.0109	0.0321	48 (36)	52 (35)	86 (27)
50	x	Fleischmann's yeast	0.0105	0.0120	0.0469	45 (37)	48 (36)	59 (30)
63	x	Willard Starting Service	0.0132	0.0165	0.0469	36 (38)	35 (38)	59 (31)
77	x	Brown-Forman Distillery	0.0142	0.0234	*	33 (39)	24 (39)	*
36	x	Schenley's Ancient Age whiskey	0.0165	0.0305	*	28 (40)	19 (40)	*
Average costs for this issue			$0.0047	$0.0057	$0.0275			

* Data inadequate.

Summary of Advertisements by Size and Color Treatment

Key		B & W	4-color (o)	3-color (y)	2-color (z)	Roto (r)	Special	Total
(2)	2-Page							
(2b)	2-Page Bleed				1			1
( )	1-Page	8	7					15
(b)	1-Page Bleed	2	5		1			8
(z)	Two-thirds Page							
(x)	Half-Page	14			2			16
	Total	24	12		4			40

TABLE 20.—ADVERTISEMENT RATING SERVICE—CURRENT ISSUE REPORT
Life, April, 10, 1939
Individual Advertisements in this Issue

Page	Advertiser	Percentage of total readers who have			Percentage of men readers who have			Percentage of women readers who have		
		Seen	Read some	Read most	Seen	Read some	Read most	Seen	Read some	Read most
	2 Page 2 Color Bleed									
44–5	Mobilgas	51.8	37.4	3.6	60.3	43.6	6.4	42.8	31.0	0.7*
	Covers									
4c	Coca-Cola	72.1	57.3	7.6	75.6	64.1	8.3	68.3	50.3	6.9
3c	Canadian Club whiskies	53.0	47.4	9.6	58.3	53.2	11.5	47.6	41.4	7.6
2c	Nash	37.4	36.8	6.0	45.5	44.9	9.0	29.0	28.3	2.8
	1 Page 4 Color Bleed									
34	Four Roses whiskey	52.8	32.6	7.0	52.6	31.4	7.1	53.1	33.8	6.9
43	La Salle	48.7	44.7	7.6	56.4	51.9	11.5	40.7	37.2	3.4
37	Plymouth	46.4	44.0	7.6	56.4	53.2	9.6	35.9	34.5	5.5
33	Firestone Champion tires	43.1	23.5	3.0	55.8	32.7	5.8	29.7	13.8	—*
	1 Page 2 Color Bleed									
81	Warner Brothers	62.2	62.2	53.3	59.6	59.6	47.4	64.8	64.8	59.3
	1 Page B & W Bleed									
7	Hudson	30.5	29.5	5.0	37.8	35.9	6.4	22.8	22.8	3.4
5	Chevrolet	26.7	26.4	4.6	34.6	34.0	7.1	18.6	18.6	2.1*
	1 Page 4 Color									
52	Gilbey's gin	38.5	27.3	2.6	39.1	27.6	3.2	37.9	26.9	2.1*
56	Martini & Rossi vermouth	33.1	19.6	6.6	34.6	20.5	7.7	31.7	18.6	5.5
51	Havoline motor oil	32.2	26.9	2.6	35.9	30.1	4.5	28.3	23.4	0.7*
46	Glenmore whiskey	27.8	22.0	3.6	29.5	20.5	3.2	26.2	23.4	4.1
55	General Squeegee tires	23.8	23.5	1.9	30.8	30.8	3.2	16.6	15.9	0.7*
	1 Page B & W									
3	Woodbury's facial soap	31.5	27.3	3.7	13.5	10.3	0.6*	50.3	44.8	6.9
59	United Brewers Ind. Found.	29.5	28.8	11.0	32.7	31.4	13.5	26.2	26.2	8.3
13	Dodge	22.1	19.4	4.3	31.4	26.9	6.4	12.4	11.7	2.1*
16	Heinz products	21.1	17.8	5.4	10.9	9.0	1.9*	31.7	26.9	9.0
61	All Year Club of South. Calif.	19.6	19.6	9.9	17.9	17.9	8.3	21.4	21.4	11.2
1	Cities Service dealers	19.1	15.8	1.3	26.9	22.4	1.9*	11.0	9.0	0.7*
10	Wear-Ever aluminum	18.8	16.7	3.7	10.3	8.3	1.9*	27.6	25.5	5.5
14	Zonite-Barcelona castile shampoo	13.4	12.7	1.3	9.0	7.7	0.6*	17.9	17.9	2.1*
	One-half Page 2 Color									
87	Columbia Pictures	36.0	36.0	17.8	26.3	26.3	9.0	46.2	46.2	26.9
86	Old Crow whiskies	15.3	6.0	2.0	15.4	5.1	2.6	15.2	6.9	1.4*
	One-half Page B & W									
15	Kayser hosiery	32.4	23.9	6.8	17.9	7.1	—*	47.6	41.4	13.8
75	Black and White Scotch	30.8	24.2	2.4	34.0	26.3	1.3*	27.6	22.1	3.4
4	Pard dog food	22.3	16.3	3.4	20.5	16.7	1.9*	24.1	15.9	4.8
12	Toastmaster toaster and set	21.8	21.0	6.3	15.4	14.7	3.8	28.3	27.6	9.0
11	Sal Hepatica	19.7	19.7	13.1	14.1	14.1	7.1	25.5	25.5	19.3
2	Kellogg's All-Bran	16.4	15.8	10.4	10.9	10.3	7.1	22.1	21.4	13.8
6	Sinclair Lubrication	14.3	11.3	9.3	14.7	11.5	9.6	13.8	11.0	9.0
62	Playtex baby pants	12.8	12.8	4.4	6.4	6.4	1.3*	19.3	19.3	7.6
76	Bromo-Seltzer	12.6	12.2	2.4	13.5	12.8	1.3*	11.7	11.7	3.4
54	Simoniz-Simoniz Kleener	6.3	5.6	1.9	7.1	7.1	3.2	5.5	4.1	0.7*
50	Fleischmann's yeast	5.8	5.1	1.3	1.9*	1.3*	0.6*	9.7	9.0	2.1*
63	Willard Starting Service	4.6	3.7	1.3	7.1	5.8	2.6	2.1*	1.4*	—*
77	Brown-Forman Distillery	4.3	2.6	1.0*	5.1	3.2	1.3*	3.4	2.1*	0.7*
36	Schenley's Ancient Age whiskey	3.7	2.0	—*	4.5	2.6	—*	2.8	1.4*	—*

* The data upon which this figure is based are considered unstable. A dash (—) before an asterisk signifies *no persons reported upon.*

circulation is considered. No sales could be made to those who did not read.

A rather complicated formula is used in comparing values, in addition to calculating costs in terms of readers. A standard is found for all the larger displays in the magazine. The median cost (the one which has as many above as below) is found and that is used as a base for comparing all the other advertisements.

The Starch Rating Service covers 19 consumer magazines, which are listed in Table 18, on page 514. All the advertisements of one-half page space or more are included in the reader interviews. Unlike the Clark service, the advertisements are shown as printed in the periodicals.

The table showing the percentage of readers of each advertisement (Table 20) for *Life* magazine is typical of the studies made by the Starch organization.

Publishers' Information Bureau, Inc.--This company checks 112 national magazines, seven national and five sectional farm papers, and 32 state farm papers in the publication field. All the expenditures by advertisers for time on the following broadcasting systems are audited: National Broadcasting Company, Columbia Broadcasting System, Mutual Broadcasting System, and spot broadcasting. The amount of time is also calculated.

In the general magazine reports, advertising for 47 main classes of goods and services and 191 subclasses is tabulated. These figures also are for both time and money. Totals are given monthly for each magazine, and yearly records appear in the December-January total sheet. A 15-year total revenue for each publication is also presented. Monthly and cumulative totals by magazine for each product advertised is also presented.

Retail shop and store advertising is separated from national advertisers and filed alphabetically following the section occupied by the records of general magazines. Special class totals of the retail shop and store advertising are shown separately.

The names of advertisers are arranged individually and in alphabetical order for each product and each magazine. This gives a complete picture of

1. Advertising carried by each magazine with the classification of products and amount of space and money for each class.
2. The amount of space and money according to each advertiser's expenditure.

3. The amount of money each advertiser spends in each magazine for each product advertised.

This gives the publisher a summary of all the advertising which might be secured for his magazine, the name of the advertisers, and their total expenditures. To the advertiser it presents the total publication advertising for his class of products; how much and where each of his competitors advertise; and how his advertising compares in total cost and in space used with all advertising of that class and for each of his competitors.

Similar information is given for the various farm papers and for the broadcasting systems. Of course the cost of radio talent cannot be shown; however, except for that item, the reports of the Publishers' Information Bureau, Inc., give an accurate picture of the current periodical and radio fields.

Audit Bureau of Circulations.—This organization has been written up so many times that only a notice is necessary to cite its principal activities. Because of a widespread habit of misrepresenting circulation which prevailed up to about 1914, advertisers formed an organization which would audit circulations in an impartial and unbiased way. This organization, which came into being in 1914, is called the Audit Bureau of Circulations. Its members are composed of publishers of magazines, newspapers, and business papers, advertising agencies, and advertisers, but the constitution is such that, regardless of the number of members, 50 per cent of the Board of Directors must come from the advertisers, for it is they who are chiefly interested in having facts about the circulation of publications which their advertising supports. The unit of value as established by the A.B.C. is "net paid circulation." This is literally interpreted to mean that the publisher must receive at least 50 per cent of the advertised price of his publication in order to have it qualify as "net paid." Where the newspaper or periodical is contracted for on subscription rates, it is regarded as being paid for until 6 months after the expiration of the subscription.

The Association is supported by dues from all its members. These fall heaviest on publishers, who make up the great bulk of membership. The rates are based on the different amounts of circulation which the publication enjoys and upon the type of publication. Newspapers have one rate; magazines have another; and business papers another. All the membership pub-

lications are audited once a year by a committee working under the direction of the A.B.C. One other audit is made by the publisher, 6 months from the time of the official audit. Blanks for this are supplied by the A.B.C., and it is carefully compared with the following and previous official audits.

In theory and according to the constitution of the Association. publishers' reports are open only to members, but, as a matter of practice, they are turned over to the Standard Rate and Data Service, in which they are published, in part at least. The salient facts are presented. This is by mutual consent.

Brand Barometers and the Psychological Corporation. The studies which constitute the Brand Barometers derive their name from the fact that they are intended to measure the direction in which people are being influenced. They are not measures of sales, but rather a measure of people Are more or fewer people, among the customers available, being influenced to buy a certain brand or type of product; for example, tooth pastes versus tooth powders, or Campbell's tomato juice as compared with other brands.

The unit of measurement is readers, not sales. Nothing is said in these Barometers about how often people buy an article, how much they buy, or the dollar value of their purchases. For example, a decreasing per cent of the possible customers may be buying a certain brand, and yet the total dollar sales of this brand may be showing an increase, owing to more frequent purchases by those who are still buying that brand; that is, a general increase in buying power.

The Psychological Corporation says of its methods:

We have selected, as a psychological yardstick, a periodic study of 4,000 homes in the *B* economic group. This group was selected as being the most responsive to advertising influences, and therefore the group which would most quickly reflect the effects of these influences in changed buying habits. The changes in the *B* group would probably occur more slowly in other economic groups.

However, in order to have a more comprehensive measuring device, the scope of the Barometer studies also include the *A*, *C*, and *D* economic groups on occasion, usually every 6 months.

These Barometers are now so accurate that they measure changes of less than 1 per cent. In 1934 we made what was probably the first empirical analysis of the accuracy of samples of various size in respect to public polls or consumer surveys. The results were published in the

Journal of Applied Psychology, in February, 1939, under the title: "How Many Interviews Are Necessary for Results of a Certain Accuracy?" Dr. George Gallup was the first psychologist outside our own organization to make use of this study and it has been widely used in the development of other polls.

Of course, if questions are worded incorrectly, the results will be wrong no matter how many interviews are made.

For example, we started, in 1933, a series of questions on the N.R.A. We could have asked, as one poll of 40,000 housewives did, a question somewhat as follows: In your opinion is the N.R.A. a good thing or not? Ninety-two per cent answered, good; at about the same time we were asking 4,000 women: From what you have seen of the N.R.A. in your neighborhood, do you believe that it is working well? Forty-two per cent, or less than half as many, answered yes.

If a question is worded wrong, interviews with a sample of 50,000 people will give a result that is not as accurate as interviews with 5,000 people using the correct question.

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CHAPTER XXIV

Barriers to Interstate Trade

Natural Flow of Commerce.—Before starting a discussion of the artificial barriers which are being reared to impede the free and uninterrupted flow of goods from the place of origin to the place of consumption, it may be well to make a brief survey of some of the advantages of unimpeded trade, and to take a glance at some of the benefits that large-scale production has provided. For example, plate-glass windows for buildings and automobiles are supplied by huge glass factories at Charleston, W. Va., and Shreveport, La. Had each locality tried to supply its own glass, as in "the good old days," the experimental and laboratory work necessary for such production would have been impossible, and we would still be viewing the world through 7- by 9-inch "wavy" window panes.

Had each district set up its own little flouring mill and prohibited the importation of flour, there never would have been milling centers such as Buffalo, Minneapolis, Chicago, Kansas City, and Portland, and the improved cereal products that have come from their laboratories would still wait to be discovered or invented.

No such paper mills as those in the Fox River Valley of Wisconsin and Kapucasing, Ontario, could exist if they were not allowed to distribute their products without impost taxes. If each city or each state attempted to make its own paper, the price would be so high that there could be no 5-cent magazines or 3-cent newspapers. Furthermore, there never would have developed the hundreds of different papers and paper products we now enjoy.

With local production only, such laboratories as those of the General Electric Company at Schenectady and Nela Park could not have existed and the myriads of inventions that have come from them to light and furnish our homes would have been denied us. The same thing is true of the food laboratories of the Carnation Milk Company at Seattle and the Borden Company of New York City. The study of sound and its means of transmission has been given a greater impetus by the Bell Laboratories in New York than from any other source, perhaps from all other sources. Without these and the General Electric products, our radios would be vastly different.

In 1920, with 2 million automobiles, gasoline was 29 cents a gallon. Now, with 15 times as many gasoline-driven cars and a 6-cent tax, this fuel can be bought for 10 cents a gallon less than 20 years ago. This could not have happened without such refineries as those at Bayonne, N. J., and Parco, Wyo., and these, in turn, could not have been built up on small-scale operations.

The principal petroleum-producing states are California, Kansas, New Mexico, Oklahoma, and Texas. If each of the other 43 states had tried to shut out the oil produced in these five states, the price nowhere could be so low as it now is for the same quality. The oil states might tax paper, electrical appliances, glass, dairy, and cereal products in retaliation. Would anyone benefit by such a crazy limitation of commerce?

The present restrictions placed on the movement of many products across state lines is equally devoid of logic or of beneficial results. Much of it springs from shortsighted business strategy, some from pure spite. The review of these practices and of the laws which permit them, in the face of a constitutional prohibition of interstate imposts, is necessarily incomplete. But the scope and various methods of applying restrictions are indicated in the following paragraphs.

What Is a Trade Barrier?—An interstate trade barrier is any state statute or regulation which, on its face or in practical effect, tends to operate to the disadvantage of persons, products, or services coming from sister states, to the advantage of local residents, products, and business. This is the realistic approach. The problem could only be viewed from the standpoint of the state's efforts to achieve the end of prohibiting or limiting the

influx of persons, commodities, and services which are in competition with the domestic supply of the state.

It is recognized that diversity of state laws is often essential to meet the varying economic conditions of particular states. What fits the needs of an agricultural state may be entirely out of place in an industrial state. Uniformity of state legislation may or may not be a desirable end.

Trade-barrier devices fall into four principal classes. In the first group are those statutes which, on their face, manifest a discriminatory or retaliatory purpose directed against out-of-state competition. Obviously this direct and gross form of barrier statute is sharply limited in number.

A second group of statutes consists of those which are nondiscriminatory on their face but are discriminatory in operation.

Many trade barriers are found in a third category of statutes. On their face, they are equal in application to residents and nonresidents but in practical operation burden out-of-state business.

The fourth source of barrier practices is frequently found in discriminatory and burdensome administration of state statutes. This is attributable to the fact that numerous administrative agencies are vested with broad discretionary authority to frame rules and regulations which permit them to employ various types of "police" regulatory legislation as instruments to restrict trade between the states. Unfortunately, the data concerning such administrative action are not readily available.

Additional barrier regulations are often embodied in municipal ordinances and administrative rulings which are so numerous that they can be given only brief mention in a later paragraph.

Legal Aspects of Trade Barriers.—It is evident that any discussion of trade-barrier laws must take into consideration the constitutional framework within which these laws were passed. These statutes have been enacted under four categories of powers traditionally delegated and reserved to the states under our constitution, which are: first, the power of taxation; second, the state's "police" power in the protection of health and sanitation, including inspection and quarantine; third, licensing and general regulatory powers; fourth, the sovereign proprietary powers in regard to conservation of natural resources and ownership of public works and property.

The authors do not intend to criticize the exertion of state powers to promote "police" ends, to produce necessary revenue, and to protect state resources and property. The dangers lie in the abuse of these powers to achieve interstate market restrictions by masquerading serious impediments to free trade in the garb of traditional powers. This is especially true when the state openly asserts that it is acting to protect an imperative local need. As was recently said in a Supreme Court opinion:[1]

> Maintenance of open channels of trade between the States was not only of paramount importance when our Constitution was framed; it remains today a complex problem calling for national vigilance and regulation.

The problems raised can be met by cooperation between the states. Suggestion for action by the Congress is not within the province of the text; much less is a discussion of the constitutionality of the laws referred to. The problem was defined from the standpoint of national policy in the dissenting opinion of the United States Supreme Court in the recent Arkansas tax case,[2] where it was pointed out that the questions raised by that case are "for consideration of Congress in a nation-wide survey of the constantly increasing barriers to trade among the states." The dissenting Justices said:

> Unconfined by "the narrow scope of judicial proceedings" Congress alone can, in the exercise of its plenary constitutional control over interstate commerce, not only consider whether such a tax as now under scrutiny is consistent with the best interests of our national economy, but can also on the basis of full exploration of the many aspects of a complicated problem devise a national policy fair alike to the States and our Union. Diverse and interacting state laws may well have created avoidable hardships.

It should not be inferred that the United States Supreme Court has failed to enunciate certain applicable principles or has not issued warnings to state legislatures. On the contrary, the Supreme Court has made pronouncements of general significance which can be summarized without the legal entanglements

[1] Dissenting opinion of Justices Black, Frankfurter, and Douglas in *McCarroll* v. *Dixie Greyhound Lines, Inc.*, U. S. Sup. Ct., decided Feb. 12, 1940.

[2] *Ibid.*

involved in analysis of specific decisions. The following constitutional principles are of interest.

1. In the exercise of their general "police" powers in the fields of taxation and regulation, the states cannot impose burdens on interstate commerce which are direct and substantial.

2. The power of Congress over interstate commerce is plenary. Until Congress occupies the field, the regulation of the states might affect interstate commerce in an indirect and insubstantial manner. But once Congress has spoken, the state laws must give way to the Federal legislation as being in conflict with the supreme law of the land. For example, Federal motor-vehicle legislation may occupy the field to the exclusion or diminution of regulations by individual states.

3. Where the discrimination against interstate or foreign commerce is obvious on the face of the statute, it will not be upheld, as exemplified by the recent Florida foreign cement inspection fee case.[1]

4. The courts will look into the facts of each case to determine the extent to which the statutory provision in question operates to burden interstate commerce. The courts will go behind the face of the statute to its practical operation. This is exactly what the United States Supreme Court did in the latest trade-barrier decision in the Arkansas tax case, where the court went into arithmetical calculations to show the mischief of the statute.

5. Nowhere are the general principles stated with greater eloquence and clarity than in the words of Mr. Justice Cardozo in *Baldwin* v. *Seelig*.[2]

> What is ultimate is the principle that one state in its dealings with another may not place itself in a position of economic isolation. Formulas and catchwords are subordinate to this overmastering requirement. Neither the power to tax nor the police power may be used by the state of destination with the aim and effect of establishing an economic barrier against competition with the products of another state or the labor of its residents. Restrictions so contrived are an unreasonable clog upon the mobility of commerce. They set up what is equivalent to a rampart of customs duties designed to neutralize advantages belonging to the place of origin. They are thus hostile in conception as well as burdensome in result.

[1] *Hale* v. *Bimco Trading, Inc.*, 306 U. S. 375 (1939).

[2] 294 U. S. 511 (1935).

The Taxing Power.—By means of their taxing power, the states have erected barriers to interstate trade. The barrier types of taxes may be divided roughly into three main groups: (1) Taxes which aim to exclude a competitive commodity in favor of the home products; (2) those which are aimed against a competitive type of merchandising; (3) those which operate as barriers because of their multiplicity, diversity, and cumulative burden on interstate commerce.

Competitive Commodities—Margarines.—It is in the fields of margarines and liquor that we find this first type of taxation. The classic example of this group is the battle which has been waged between butter and the margarines. In the field of liquor, we have the recent avalanche of legislation which followed repeal and the Supreme Court's interpretation of the 21st Amendment, giving the states complete freedom to deal with this product.

Tax legislation in the field of margarines indicates that the dairy states have sought to exclude margarine by practically taxing it out of existence, while the southern, nondairy states have sought to protect their margarine industry by taxing any competitive products not made from their own home-grown crops. With the conflict between butter and margarine in the same state we are not concerned. But when a dairy state seeks to protect its butter against margarines coming in from another state, the law takes on the aspect of an interstate barrier. In form these taxes are usually either a license or an excise tax.

Sixteen states require licenses to engage in the manufacture, distribution, sale, or serving of this product, and fees for such licenses range from $1 to $1,000 per year. Pennsylvania, Wisconsin, and Montana are in the highest bracket. North Carolina had a $1,000 license fee for manufacturers which was repealed by the 1939 legislature, so that North Carolina has now joined the more or less "solid" South front in the margarine-butter war.

Twenty-three states have adopted excise taxes, ranging in scope from 5 cents a pound on uncolored margarines to 15 cents a pound on all margarines. The cotton-belt states, except Mississippi, Oklahoma, and Tennessee, have levied a 10-cent-a-pound tax on all margarines except those containing cottonseed oil, corn oil, peanut oil, soybean oil, margarine oil and stearine from cattle, and certain other animal fats and oils. Maine also gives the same exemption from its 10-cent tax.

Fearing competition from imported oils or fats, some states have also exempted imitation butter made from domestic oils or fats, indirectly taxing the use of the foreign product. Nebraska has such a law, which provides that such product, containing more than 50 per cent of animal fats or oils produced in the United States, shall not be included in the term "imitation" butter "for tax purposes." Furthermore, some states, such as Washington with its 15-cent tax, exempt margarine from taxation altogether if it is sold for exportation from the state.

The dairy and cattle-producing states, on the other hand, such as Minnesota, Nebraska, and Wyoming, tax products containing less than 65 per cent, 50 per cent, and 20 per cent, respectively, of animal fats or oils, while Wisconsin taxes all margarines. The curiously worded definition of margarine for taxing purposes says it applies to

> . . . all fats and fat compounds sufficiently adaptable to use like an ordinary use of butter, to lead readily to use as an alternate to butter, and to all ingredients of such fats or fat compounds distributed, sold or handled in any manner, that may lead readily to their being mixed or combined for such use.[1]

It is also interesting to note that although California, Colorado, and Oregon have enacted excise taxes on margarine the citizens of these states rejected the legislation by referendum vote.

Competitive Commodities—Liquors.—In the field of liquor, the Marketing Laws Survey[2] found that several tax devices have been resorted to for the purpose of stimulating domestic products and crops used in liquor manufacturing or to build up the state liquor industry generally. No less than 26 states have passed preference laws by levying lower license fees or excise taxes on liquor when state-grown ingredients are used. For example, Alabama taxes manufacturers of alcoholic beverages $1,000 annually for each place of manufacture, but wine makers using 75 per cent or more of Alabama raw materials in their wineries pay only $25. In Oregon the regular winery license is $250, accompanied by a minimum bond of $1,000, but a farmer who makes wine from his own grapes or other fruits pays an annual fee of $25 and is subject to a $500 bond.

[1] L. 1939, c. 432.

[2] Comparative charts of State Statutes Illustrating Barriers to Trade between States, 1939. A W.P.A. Study.

Then there are the gallonage taxes. In Michigan the tax per gallon on wine made from grapes or fruit not grown in Michigan is 50 cents, but wine made in the state from products of which 75 per cent or more have been grown in the state is taxed only 4 cents a gallon. In Arkansas, the 50-cent-per-gallon tax on wine does not apply to wine made in Arkansas from raw products in the state.

Georgia levies a tax of 5 cents a gallon on domestic wine containing not more than 14 per cent alcohol, but foreign wines of the same alcoholic content must pay 40 cents. A tax of 30 cents per gallon is levied on domestic wine containing 14 to 21 per cent alcohol, but foreign wines of the same alcoholic content must pay 60 cents.

It is more common, however, to impose restrictions on the importer (and occasionally on the foreign manufacturer), than on the import itself. At least six states charge a higher or additional fee for importing into the state than is charged for wholesaling or distributing the local product. In Nevada the wholesaler's wine, beer, and liquor license is \$150, but the importer must pay \$350 for the same type of license. Massachusetts charges solicitors for foreign manufacturers of alcoholic beverages a \$100 to \$300 annual license fee, as against \$10 for state residents soliciting for domestic manufacturers. Louisiana requires that dealers who maintain a regularly established place of business in the state pay a \$1,000 annual fee, but failure to maintain such place subjects the dealer to a \$10,000 fee.

Eight states have enacted retaliatory legislation against beverages from other states. Typical of such liquor retaliatory measures is the Rhode Island statute, which provides that the Department of Business Regulation be authorized to assess the products of any state discriminating against Rhode Island products in such amounts as would equalize the taxes and other charges. If this does not remove the discrimination, the Department may assess such additional charges as it may deem necessary to remove such discrimination against Rhode Island products. Michigan empowers the State Liquor Commission to establish an embargo against beer of any state levying a discriminatory tax against Michigan-produced beer.

Itinerant Truckers.—Taxes which are aimed against a competitive type of merchandising are widely used against the so-called

"itinerant merchants." With the increased use of motor trucks, the old laws against transient merchants and peddlers have been revived. While most of the itinerant-peddler laws on their face do not discriminate against the out-of-state vendor, the Louisiana and Wisconsin statutes are so defined as to strike directly at nonresidents. The Louisiana law declares that nonresidents importing for sale certain poultry, fruits, and vegetables in trucks must pay a license fee of $200 and does not mention the resident trucker.

The Wisconsin law defines a merchant-trucker as one who transports produce not grown in the state in a truck or other vehicle from a point within or without the state and who sells the same direct from such vehicle to retail merchants without advance order. Such trucker is required to pay a fee of $40 before he can sell his produce. It is interesting to note, however, that the Arkansas and Georgia laws specifically encourage truckers to come into their states to buy but not to sell. Arkansas provides for certain registration exemptions for truckers who come to purchase. Georgia declares that truckers hauling agricultural products grown in Georgia may make 10 free trips into the state per month, while others may make only two free trips per month.

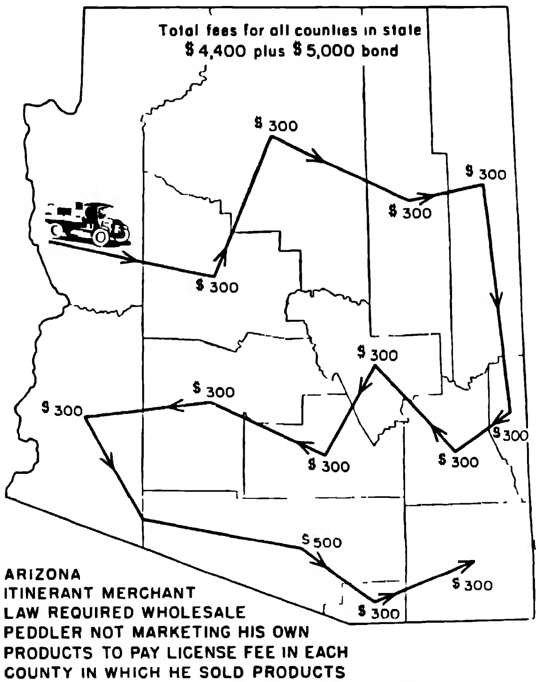
Arizona, Montana, Nebraska, and West Virginia are some of the states which require itinerant merchants to pay license fees of a special nature.

Motor Vehicles.—In the field of motor vehicles, most of the laws, on their face, do not discriminate against out-of-state vehicles; they do operate as a cumulative burden on trucks which must pass through several states, paying fees in each. Such burdens may be justified, perhaps, as compensation for use of the highways, but when pyramided against a single vehicle may constitute a real handicap and burden to motor transportation. There are registration fees, gross receipts taxes, mileage taxes, and other miscellaneous taxes too many and too complicated for detailed analysis in this statement.

A state may require motor trucks using its highways to register and pay a fee therefor. These fees are often heavy and usually increase sharply with the size of the truck. They vary from $30 on a 5-ton truck in Idaho to $400 in Alabama, $400 in Georgia, and $300 in South Carolina on a 5- to 6-ton truck. This would

make a total of $1,100 for a 5-ton truck going from Columbia, S. C., to Birmingham, Ala.

In Mississippi the fees for private commercial carriers range from $132 for vehicles not exceeding 5 tons, to $498 for vehicles not exceeding 10 tons. In North Dakota the fees to be paid range from $400 on a 5-ton truck to $1,500 for a 10-ton truck,



This shows the tax imposed on an outside truck visiting the different counties of Arizona. Fees amount to $4,400 plus a bond of $5,000.

with a 10 per cent reduction each year from the previous year's fee until it equals one-half of the original fee.

While it is true that reciprocity, in one form or another, is provided for in the laws of some 41 states, only 9 states grant complete reciprocity as to all fees. The laws of Nebraska present a typical example of the effect of such reciprocal arrangements. They provide that the state is to extend full reciprocity on license fees to trucks from other states provided that the states in which *such trucks are domiciled extend similar privileges to trucks from*

Nebraska. Similar provision is made for the "ton-mile" tax, license plates, and other special taxes. Only 18 states are cooperating with Nebraska to such an extent that trucks from these states may pass through Nebraska without purchasing a license. As for trucks from the other 29 states, the requirements imposed by Nebraska upon such trucks vary with the requirements which each state imposes upon Nebraska trucks.

A few states permit certain types of truck operations by out-of-state trucks for a short period of time or for a limited number of trips without payment of the regular fees or upon payment of a fraction thereof. Frequently, however, such permission is extended to only a limited type of truck operator; for example, the Arizona law, which extends the privilege of special 30-, 60-, or 90-day permits only to private truckers transporting their own property.

Some 20 states have enacted mileage taxes of one form or another. These taxes are calculated either on the basis of ton-miles traveled within the state or on a graduated fee per mile for trucks of varying weights, and range from 1 mill per mile on a 5-ton truck in Michigan to 2 cents per mile on the same truck in Alabama.

Then there are the gross receipts taxes. These taxes have been enacted by some 12 states, Arizona, California, Idaho, Indiana, Louisiana, Mississippi, Montana, West Virginia, North Carolina, Oregon, Pennsylvania, and Virginia. In the case of interstate transportation, these taxes are ordinarily assessed against the gross receipts in proportions which the mileage traveled within the state bears to the total mileage traveled in interstate commerce, and range from one-half of 1 per cent in Montana to 6 per cent in North Carolina.

A more recent type of levy has come into being in the form of a caravan tax levied on motor caravans or motor convoys. California, Idaho, Ohio, Oklahoma, and Texas have enacted such laws. The California law prohibits the transportation of any vehicle, whether originating within or without the state, for the purpose of sale, without securing a special permit for each vehicle so transported. It also provides for payment of two license fees —one for $7.50 to reimburse the state for the expense of administering its police regulation, and the other of $7.50 for the privilege of using the highways.

Use Tax.—Not only can states burden specific industries by means of cumulative taxation, but a new device has recently been utilized in the form of a "use tax," whereby states can tax all purchases of interstate products. The "use tax" was enacted by the states as an equalizing tax upon interstate transactions not subject to the state sales taxes levied upon intrastate transactions. When the enacting state allows a deduction for sales, use, or similar taxes in the state of origin it is called a "compensatory use tax," and the burden against business from other states may be no greater than on domestic business.

As of January 1, 1940, 15 states had enacted general "use taxes," but of these only nine are compensatory in character. In the six remaining states the imposition of the "use tax" may operate as an import duty, burdening products from sister states and resulting in preferential treatment to domestic industries. These preferences are expressly set out in certain "use tax" statutes. For example, Oklahoma and Wyoming exempt products of their farms; California exempts gold bullion; and Utah and Wyoming, products of their mines.

Sanitary Inspection.—In addition to using their taxing power as a means of excluding out-of-state products, the states also invoke their power of inspection. The fields in which these inspection laws operate are many, but they have their greatest effect as trade barriers in the dairy, nursery, livestock, and liquor industries. Of foremost importance are those restrictions placed on milk and cream by numerous states.

Except in the case of an acute milk shortage, Rhode Island requires that any milk sold in the state must be produced on a dairy farm registered by the State Department of Agriculture and Conservation. Such registration is not granted until inspection has been made. Milk entering the state and failing to meet such requirements may be colored with a vegetable coloring matter.

Connecticut, Massachusetts, New Jersey, Pennsylvania, New York, Virginia, and Florida also require that milk (and, in some cases, cream) must be licensed or inspected by the officials of the importing state. In Connecticut, although out-of-state dairies must secure permits and submit to inspection, the Dairy and Food Commissioner is prohibited, by statute, from inspecting beyond the present milkshed area of the state except in case of a milk shortage or emergency.

Added to all the state requirements imposed upon the milk industry are those of cities which, through enabling legislation, are frequently given the power to impose additional health restrictions. Maryland, for instance, declares it unlawful to import into that state milk not produced, handled, or shipped according to standards applicable in the state and in the municipalities into which it is shipped.

In addition to the inspection of milk and cream, there now appears to be a movement among the states to include all dairy products within that field. Pennsylvania, Minnesota, Louisiana, and New Jersey forbid the importation of any ice-cream products unless they are registered and the manufacturer licensed by the State Department of Agriculture.

In addition to these sanitary and health requirements, statutes have recently been enacted known as the "Milk Control Acts," which regulate price and marketing practices. Today there are 21 such acts in existence (June 10, 1940).

In most of these states a milk control board is created. In several the powers are vested in existing state departments, while four states make provision for local boards which may exercise limited jurisdiction within certain restricted areas, subject to the supervision of the state authority.

The powers of investigation vested in such boards are sweeping. This power includes the right to subpoena and examine witnesses, take dispositions, and examine books, records, and accounts of persons in the industry. It also includes the right of entry by members of the board or its employees for any and all purposes as the board may deem necessary. The boards are also given the authority to fix prices for milk and milk products and to designate and define milkshed and marketing areas. Finally, the boards, in administering these acts, are empowered to promulgate such orders, rules, and regulations as, in their discretion, are deemed necessary and essential for the protection of the industry. In these broad discretionary powers lies the greatest danger of burdens and hindrances to interstate commerce.

Nursery Stock.—The power of exclusion through inspection is by no means limited to dairy products. Horticultural products are almost entirely controlled, restricted, excluded, or destroyed by the importing state through this method.

Although these quarantines are very effective in preventing the spread of animal and plant diseases and of insect pests and have prevented enormous losses to agriculture, yet, because of their direct and often drastic effect upon trade, quarantines when unnecessarily applied can do great harm to the exchange of products between different parts of the United States.

The Marketing Laws Survey found that 47 states have statutory inspection requirements for imported nursery stock. Twenty-eight states require state-of-origin certificates certifying to the pest-free or disease-free condition of the stock. In addition, practically all the states require further inspections after the stock has reached its destination. Every state gives to its Department of Agriculture, or a similar agency, some power to declare quarantines. Many of them are also given the authority to confiscate and destroy the stock. The great mass of regulation, however, is not in the statutory enactments, but in the regulations promulgated by the state agencies.

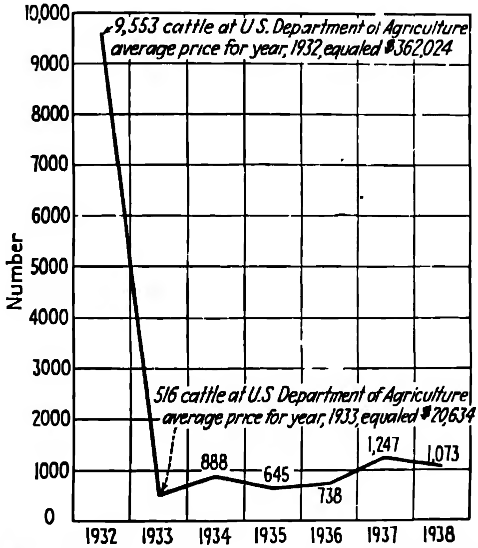
The Marketing Laws Survey found that only six states make provisions in their statutes for reciprocal agreements in the plant industry. But such reciprocal legislation can be double-edged, being stated in terms of retaliation. For instance, Louisiana, in 1938, enacted a provision which made it unlawful to ship into the state, sell, or handle in any manner within the state any agricultural plant or plant product from any state, territory, or foreign country which prohibits the shipment from Louisiana of any such agricultural or horticultural plant or plant product by reason of quarantine or embargo of any kind or nature.

The Bureau of Agricultural Economics of the U. S. Department of Agriculture has summarized the flaws which exist in the field of quarantines and have a detrimental effect on the movement of agricultural products by reason of unnecessary red tape, annoyance, delay and expense; improper definition of the quarantined areas, resulting in the restrictions upon shipments from areas where the disease or pest quarantined against does not exist; lack of a real biological basis for the quarantine; and serious nonuniformity of regulations.

Livestock.—The same situation prevails in the livestock industry. Thirty-three states require health certificates showing freedom from infectious and contagious diseases; others require tuberculin test charts, permits, and notices, in advance of impor-

tation. In addition to these conditions precedent to importation, the livestock is subject to further dual inspections when it reaches the state of destination, the period required before release varying in different states.

A comparison of these statutes reveals a bewildering variety of regulation. Sometimes healthy livestock may be quarantined and held by the state as long as 60 days before it is allowed to be sold within the state. Arizona and Iowa are typical of states which have such a provision. Usually, the statutes are specifi-



This illustrates the effect on the shipment of cattle from Wisconsin, by a New York State quarantine.

cally directed at the elimination of tuberculosis and Bang's disease.

A specific example of a quarantine in operation will serve to show the effectiveness of such measures in creating trade barriers. On Oct. 1, 1932, the state of New York's Commissioner of Agriculture and Markets established a Bang's disease quarantine on dairy cattle. It forbade the shipment into the state of all cattle, even if free from Bang's disease themselves, unless they came from herds that had been certified as being completely free from the disease after three successive negative tests within a year previous to their arrival in New York.

At the time the quarantine order was issued, less than 1,500 herds in the United States could meet these standards and, according to public sources, none of these were New York herds. It practically forced milk producers to rely on upstate New York herds for their milk cows, even though such cattle might be inferior or more costly than Western cows. Previous to the order, the herds of Wisconsin had been among the leading out-of-state sources of supply, having sold on an average of over 7,500 milk cows per year to New York milk producers during the preceding years. Although Wisconsin probably now has more herds—approximately 23,971—which meet New York requirements than the rest of the United States combined, the market thus lost has never been recovered.

CATTLE SHIPPED FROM WISCONSIN TO NEW YORK

1932	9,553
1933	516
1934	888
1935	645
1936	738
1937	1,247
1938	1,073

General Foods.—The powers of embargo are not limited to plants and animals, however. Three statutes authorize the establishment of embargoes on fruits and vegetables. Georgia, for example, provides that the Commissioner of Agriculture may declare an embargo on fruits, vegetables, and truck crops coming into the state if domestic products are sufficient for home markets. Louisiana has a retaliatory statute which forbids the sale in Louisiana of products from a state which prohibits the importation of such products from Louisiana.

Here all pretense of plant protection or tax is thrown to the winds and outside products simply prohibited unless they are needed because of domestic shortage.

Public Safety and Morals.—Regulatory laws which operate as trade barriers, though enacted under the state's power to protect public morals and safety, have been found in the fields of liquor, insurance, margarines, general foods such as fruits, vegetables, and eggs, commercial fertilizer, itinerant merchants, and motor vehicles. States, through the exercise of their powers of

taxation and otherwise, have succeeded in favoring home-state liquor manufacturers, wholesalers, and farmers.

The same effect is achieved by laws passed in the exercise of the state's power to protect public morals. This is achieved by several different devices. At least four states, Colorado, Pennsylvania, Washington, and Wyoming, provide that licenses will be granted only to persons who are residents of the state or corporations authorized to do business in the state. Others, such as Ohio, South Dakota, Texas, and Wisconsin, will grant licenses only to persons who have resided in the state for a specified number of years. Massachusetts grants a license to import or wholesale alcoholic beverages only to individuals who are residents of the state, to partnerships composed of such individuals, or to Massachusetts corporations, a majority of whose directors reside in the state.

In the field of insurance, typical examples of the restrictions imposed by a state upon out-of-state insurance companies, in the exercise of their police power, are those placed on the admittance of foreign corporations to do business within the state. Such restrictions take the form of requiring submission of reports to the Secretary of State and his approval before entering business in that state. The Secretary of State is also frequently authorized to require deposit of bonds or securities to protect state residents. Another type of provision allows the Commissioner of Insurance or other state official to revoke the license of a corporation if it does not pay its losses. Capital requirements are also set.

As for margarines, the states, in exercising their power to protect public morals, have enacted an amazing mass of mandatory labeling laws which operate to penalize the sale or serving of margarines in competition with butter. These labeling provisions present a confusing picture. Some states require containers to be marked, branded, or labeled, top, side, and bottom; others, top only; others, top and side; and still others, two sides directly opposite each other, etc. California requires that a retail customer be handed a statement setting out all ingredients and the percentage of each contained in such a product. In Minnesota a similar statement is required, which must also state from what animal or vegetable such ingredient was extracted. Approxi-

mately 20 states prohibit the use of margarine or butter substitutes in state institutions.

Control through Grading.—What the states have done under their police power in the battle between margarines and butter, they have also done in reference to general foods, especially fruits and vegetables and eggs.

The power of a state to set grades, require labeling of products, and prescribe standard containers is conceded, and such regulations can have great value in facilitating trade, preserving the condition of the merchandise, protecting the buyers from deception, and preventing unfair competition.

Standards are set for some 117 or more types of fresh fruits, vegetables, and nuts throughout the United States. The United States sets standards for 84 such types. California forbids the sale of some two dozen kinds of fruits and vegetables unless they meet rigid grades, classifications, and standardization requirements fixed by the state authority. Colorado has similar legislation affecting a dozen agricultural products, and Montana specifically controls almost that many. South Dakota has a rigid law for potatoes; Kansas, for apples.

Further trade barriers are erected by laws controlling inferior grades of products. Montana, for instance, requires all fruits and vegetables not conforming to Montana grades to be marked "Culls" or "Unclassified" before they can be sold in the state. California has enacted similar provisions. Although in some instances these measures are related to the police power, nevertheless, standards set unusually high prevent large classes of persons in the lower income brackets from buying such goods.

Not only are standards and labeling requirements set out in statutes, but in 31 states the director of markets or a similar state official is empowered by law to establish the standards. In many such states the officers are authorized to promulgate rules and regulations without public hearing or notice before the grades or revisions of grades are established and become effective.

The Federal government has also been active in the field of standards but even when states accept such Federal standards they do not always accept them *in toto* for all products, or all grades for any one product, but maintain special grades of their own in addition thereto. Montana went so far as to refuse to

admit produce from neighboring states even when accompanied by Federal certificates, until it had made its own inspection.

Shutting Out Contractors and Laborers.—Purchasing agents will find interest, if not deep concern, in some of the state laws which restrict bids on both public and private construction made under contract.

While the shipment of building materials across state lines certainly is interstate commerce according to existing decisions of the U. S. Supreme Court, the actual erection of a building is an intrastate transaction. This being true, no existing constitutional principle would prevent states from enacting statutes with provisions that only persons qualified to erect and equip buildings within the jurisdiction by having passed examinations, paid license fees, and received certificates, might be employed as builders of public works or even on private construction jobs.

Purchasing agents will be particularly interested to note that, under several of the contractor-licensing statutes given in Table 21 (p. 542), all who "aid or abet" in any violations of the statutes are subject to the penalties provided. Architects and engineers who may be working with the purchasing department on new construction and equipment are required by several of the acts to include in invitations for bids a notice that all bidders must comply with the construction-licensing statutes and regulations. Failure to comply with some of the statutes subjects the company getting a new building and equipment, its officers (certainly including the purchasing manager in some cases), the building contractor, equipment contractors, architects, and engineers to penalties.

Not all the present laws are equally wide and harsh in their applications. It may be expected, however, in view of recent amendments in some states, that statutes which do not now apply penalties widely may be altered to do so unless a change in trend soon appears.

To Prevent Growth of Barriers.—Little so far has been done to get rid of the state barriers to trade, much less to limit their growth. One privately financed organization is doing valuable educational work with state legislators and other officials and is also supplying newspapers with effective editorial material.

Perhaps the most practical plan yet suggested is for the Federal government to withhold aid to states for road building

where the state or states affected place unnecessary barriers on trucks from other states. This might also be applied to products as well as to trucking. Relief benefit could also be withheld where state regulations adversely affect the exchange of goods across boundary lines.

Under present rulings of the courts, it seems very difficult to draft legislation which would be adequate and at the same time would be upheld in the Supreme Court.

Summary.—If this country were to cut its national market up into segments, with each segment striving to cut down imports from the other sections of the nation, we would soon find that a market no longer would exist for most mass-production goods, and the cost of production would increase without any commensurate increase in the efficiency of industry. In fact, the efficiency would decline. Exactly the same thing that happened in Central Europe after the World War would happen in America, if the various states succeeded in excluding the products of sister states in order to preserve their markets for their own farmers or businessmen.

If imports from sister states are a deterrent to local prosperity, certainly in a situation of self-sufficiency we should expect to find all the states enjoying a maximum of prosperity, for no imports would be permitted. Since no states would buy from any other, then no state could sell its products to the citizens of other states.

Michigan, with the largest share of the nation's automobile factories, would have to consume all the cars it produced—but it wouldn't produce very many. Maine and Idaho would have to consume all their own potatoes—and "enjoy" a somewhat unbalanced diet. The great grain and livestock states of the West with their present populations could not eat more than one-fourth of their products.

California, which has less than 5 per cent of the nation's population and produces approximately 100 per cent of the dried fruits, 90 per cent of the walnuts and canned tuna fish and canned asparagus, 100 per cent of the lemons, and 60 per cent of the oranges consumed by the nation and more than 50 per cent of several other important foods which find their way to the tables of consumers at the present time in all parts of the nation, would suddenly find its markets curtailed to the diminishing point.

Florida, with only 1.2 per cent of the population, would find itself with 55 per cent of the grapefruit and a large fraction of the fresh winter vegetables of the nation, drugging its markets. Wisconsin, which, with 2.4 per cent of the population, is the nation's largest producer of dairy products, including cheese, canned milk, and butter, and produces far more than its relative proportion of many other commodities, would be deluged with surpluses in these lines and would suffer from shortages in others. Texas, California, Oklahoma, and Kansas wouldn't need a quarter of their present oil wells and refineries.

SUMMARIES OF STATE STATUTE PROVISIONS BY SELECTED CATEGORIES

Summary of state statutory provisions for selected categories.

And so on; we could call the role of the states, and every one would be in a condition of the most extreme business depression with the majority of people much poorer,—but why? Surely, one hears, someone benefits by measures which are aimed to keep the products and businessmen of other states out of a state's markets. The answer seems to be that a small favored group gains by such measures while the mass of the citizenry loses.

Prosperity for the great majority of producers and consumers can be achieved not by trade-barrier laws, but by free exchange of goods across state, county, and municipal boundaries. In this way production of various goods will tend to take place in the states which have the relatively greater natural advantages for each type of product. Through exchange and trade all the people in the other states get the benefit of this greater efficiency, so all have more.

TABLE 21.—CONTRACTOR STATUTES OF THE SEVERAL STATES AS OF JANUARY 1, 1940

Prepared for the N.A.P.A. by Dr. C. M. Updegraff, in the Bulletin of the National Association of Purchasing Agents

States*	General contractors included (Federal aid projects expected)	Special coverage of subcontractors selling and installing built-in equipment	Time between application and registration	No license required on contract less than	Registration fee	Renewal fee	Penalties	Person apparently subject to penalties	Specific provision for appeal to courts	Formula for computing foreign corporation fees†
Alabama	All			$10,000	$50—County license $10–$250	$25	Minimum $500 or 6 months or both	Contractor Architects Engineers Awarding authority	Yes	Filing fee .... $10 Admission tax: $100 or less (state assets) .... 25% $100–$1000 $25 + 5% Over $1,000 $70 + 1/10 of 1% Annual registration fee $5–$100
Arizona	All	Included	10–20 days. 10 days between application and bidding	No minimum	$15	$10	$100–$500 or imprisonment or both	Contractors Architects Engineers Purchasing agents		Entrance fee ..... $35 Publication fee $50
Arkansas	All		30 days	$10,000	$50	$50	$100–$200 per daily violation	Contractors	Yes	Entrance fee $10 (min.) Filing appointment of agent $2.50
California	All—Separate license for joint contractors	Included—Merely selling materials and supplies excluded	15 days	$100	$10	$5	Maximum $500 or 6 months or both	Architects Engineers Purchasing agents Contractors		Entrance fees $115
Colorado	All				$46	$11 minimum				Entrance fee $30 (min.) Incidental fee. . . $16.50
Delaware	All Occupations tax			No minimum	$5 minimum—1/5 of 1% for gross receipts in excess of $5,000. $100 maximum	Same as registration	License fee plus maximum $500 or 2 years or both	Individuals President Directors		Entrance fee .... $10 Filing appointment of agent .... $10 Incidental fees $10

D of Col	All Occupations tax			No minimum	$10	$5 minimum 3/5 of 1% for gross receipts in excess of $2 000	$300 per daily violation	Persons operating without license		No entrance fees
Florida	Public works (for bidding) Occupational tax for established businesses			$50 000	$1 000 $25 state $12.50 county $12 50 city	$1 000	Levy on property injunction	Persons operating without licens.		Entrance fee $10 (min) Filing appointment of agent $1
Georgia	Roads and streets			$15 000	$500	$100	$100–$500 or imprisonment or both	Only contractors		Same as domestic
Idaho	Public works	Included	30 days	excess of $5 000 excess of $1 000	Class I State–$100 Class II—Local $10	Class I—$50 Class II—$5	Maximum $300 or 6 months or both	Contractors Purchasing agents Architects Engineers	Yes	Same as domestic
Kentucky	Roads and bridges Does not include direct purchase of equipment materials and supplies		30 days		$50	$10			Yes	No initial tax other than filing appointment of agent $1
Louisiana	All			$10 000	$12 . to $350		$500 and/or 6 months $200 or 60 days	Contractors Architects Engineers Awarding authority	Yes	Filing appointment of agent $3.50
Mississippi	All	Not included		$3 000	$25 minimum	$25	None contract void			Filing appointment of agent $5
Montana	Public works	Included	10 days	$1 000	$10 to $200	$5 to $100	$500 or imprisonment or both	Awarding authority Purchasing agents Contractors		Incidental fees $17 Filing appointment of agent $5 Recording fee $1 Annual statement $6
New Mexico	All Occupations tax	Included	Within 30 days	No minimum for nonresidents	Residents $3 $25 nonresidents $25 1 of gross receipts	Same as registration	$100–$500 or 6 months or both	Contractors Architects Engineers Awarding authority		Entrance fee $25–$3 000 Incidental fee $13

TABLE 21.—CONTRACTOR STATUTES OF THE SEVERAL STATES AS OF JANUARY 1, 1940.—(*Continued*)

States*	General contractors included (Federal aid projects expected)	Special coverage of subcontractors selling and installing built-in equipment	Time between application and registration	No license required on contract less than	Registration fee	Renewal fee	Penalties	Person apparently subject to penalties	Specific provision for appeal to courts	Formula for computing foreign corporation fees†
No. Carolina	All	Separate statutes for certain subcontractors	30 days	$10,000	$20 $100 annual privilege tax $25–$625 construction tax	$10	$500 or imprisonment or both	Contractors Architects and Engineers receiving bids		Entrance fee. $40–$500 Filing copy of charter. $5
No. Dakota	Public works	Included when job in excess of $1,000	10 days	$2,000	$15 to $250	$7.50 to $125	$500 or imprisonment or both	Contractors, managing officers "consenting to" violation	Yes	Filing application for certificate of authority $5 Initial license fee.. $50
Oklahoma	Highway construction		30 days	No minimum	None	None			Yes	Filing statutory agent's certificate. $1
Pennsylvania	All—Occupations tax in cities of third class				Up to $100					Bonus ⅓ of 1% state assets
So. Carolina	All		30 days	$7,500	$20 $100 privilege tax on $10,000 jobs	$10	Maximum $500 or 3 months or both	Contractors, Architects Engineers Owners Awarding authority		Flat entrance fee....$50 Filing annual statement $10
Tennessee	All—who employ more than one. State highway department contracts not included	Excluded		$10,000	$20 license $1 recording $10 to $250 } privilege	$10	$100–$200 for each day without license. $100–$500 or 3 months for obtaining by fraud. $100–$250 for submitting bid without license	Contractors Architects Engineers Awarding authority		Entrance fee......$300 Filing charter.......$20

Texas (not a license tax; a service charge for being placed on mailing list)	All			No minimum	\$5–\$7.50					Same as domestic
Utah	All	Included	10 days	\$200	\$10	\$10	\$500 or imprisonment or both	Awarding authority Purchasing agents Contractors		Same as domestic
Virginia	All		30 days	\$20,000	\$30	\$15	Misdemeanor	Construction Superintendents Awarding authority Building inspectors Contractors Architects Engineers		Entrance fee \$30–\$5,000 (Without cap. stock) \$50 Incidental fees \$12
Washington	All Occupations tax			\$400 income for bimonthly period	½ of 1% of gross income			Persons operating without license		Filing appointment of agent \$10
West Virginia	All Occupations tax				2% of gross income annually		\$1,000 or one year or both	Persons doing business without license		Services of auditor . \$10 Lic. tax (Same rates as domestic but higher min.) . . . . \$150 (min.)

* In Maine, Michigan, Nebraska, Oregon, Wisconsin, and Illinois all persons bidding on public works projects are required to become qualified by submitting a sworn statement showing financial ability, equipment, and experience before a form for bid proposals will be given to them. No fee is exacted.

In Wyoming if advertisement for bids is not required, the contract must be let to residents (persons or partnerships bona-fidely residents for one year or more immediately prior to bidding, or corporations organized under the laws of the state). If advertisement is required the contract must be let to any responsible resident making the lowest bid if not more than 5% higher than the lowest responsible nonresident.

In Illinois for the purpose of determining the lowest bidder on contracts for supplies to state departments or materials in connection with construction work for state departments, an amount equal to what would be required to be paid on the gross receipts of such bid is added when the bidder is not liable for the state sales tax.

† This column does not include those additional fees applicable to foreign corporations which are the same as imposed on domestic corporations.

The only restrictions that are warranted are those which protect the public health and safety, and they are not justified because of their prosperity-giving powers. They do restrict the national prosperity to some extent, but their benefits in preventing disease and injury may outweigh their harm as trade barriers. All other barriers to interstate and intercommunity trade hurt the nation more than they help it. The way to prosperity does not point in that direction, but in the opposite one.

Despite the examples furnished us by nations in other parts of the world, state and municipal barriers to free trade within the United States have been on the increase in recent years. A constructive work for those interested in the consumer movement would be to break down these barriers. Consumer education could well devote itself to an investigation of these barriers and of the effect they have on the cost of living.

Much of the foregoing was taken from testimony offered before the Temporary Economic Committee at Washington during April, 1940. The attention of members of both branches of Congress have been called to the conditions, which will require Federal legislation to remedy. But at this writing no legislation on the subject seems to be under serious consideration.

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Appendix A

QUESTIONS AND PROBLEMS

CHAPTER I

1. At what stage in the development of American business was it discovered and realized that everyone's welfare was enhanced by the businessman?

2. What was the first source of progress toward acquiring business information through recorded experience?

3. During which decade did the schools of business, which gave instruction on the college level, come into existence?

4. Give six questions that indicate the very base of manufacturing success.

5. Summarize briefly one of the very first studies of sales potentials that was applied to the actual sales of several companies.

6. According to the authors, what constitutes the business of the world?

7. Name seven classifications of basic services.

8. In which one of the foregoing classifications do the authors place marketing?

9. In which classifications of services is advertising used most extensively?

10. Dentists have proposed a cooperative advertising campaign in which ethical dentists would join. Discuss the problems involved.

CHAPTER II

1. Define product analysis.

2. What is the probability of success in the magazine publishing field?

3. Mention a product originally advertised to one sex only but now advertised to both sexes.

4. How did General Electric conduct its study to determine the effect of weather on sales of electric fans?

5. Why is it doubly important that an advertised product be as nearly perfect as possible before it is placed upon the market?

6. Name three products that you have found distributed through unusual retail outlets.

7. What is usually the chief factor in determining the quality of a product?

8. With what types of goods does quality add little to value? Make a list of such products.

9. What term is more likely to be descriptive of what consumers seek than merely fine workmanship and good materials?

10. How would you find the dates to advertise the opening season for straw hats?

CHAPTER III

1. What are the two usual ways of conducting a market investigation?

2. Before conducting a market investigation, what is the first thing to do?

3. What is the chief problem in writing questions for a questionnaire?

4. Name five guiding principles that should be observed in writing questions for a questionnaire. Write a question for each that violates the principle. Immediately following, rewrite the question so that it conforms to the guiding principle.

5. Make an interview questionnaire to determine whether an advertising campaign for canes in college papers might succeed. For a day's excursion.

6. Suggest a question that asks for information that the one interviewed cannot give with accuracy.

7. Why should salesmen not be employed for impartial market investigations?

8. How many interviews are necessary to secure an adequate statistical sample?

9. What is one of the chief requirements of the order-of-merit system in rating advertisements?

CHAPTER IV

1. What is a simple and widely accepted definition of a market?

2. Make a list of some of the more important considerations that play a part in determining what a group of people will buy or refuse to buy.

3. Suppose an old customer (distributor) suddenly begins to buy a great deal more of a given product. What may be the significance of such a situation?

4. Define the term "market index."

5. What are some of the uses of a market index?

6. Make a list of types of goods consumed in proportion to the population.

7. Name five instances in which a single index would be highly accurate. Arrange two columns. In the first column list the product and in the second column, the index.

8. Make a market index that would reveal the comparative sales potentials for an encyclopedia in several different states.

CHAPTER V

1. What is meant by the establishment of a distribution policy?

2. What are some of the more important provisions that a manufacturer should include in an exclusive agency contract with a wholesaler or retailer?

3. Name five of the provisions for an exclusive automobile agency contract. Also, for an exclusive agency for paints

4. Name five types of products frequently sold under exclusive contract.

5. With what classifications of goods are exclusive agencies the exception?

6. Under what circumstances are machines frequently leased rather than sold?

7. Which type of product is leased to a greater extent than any other?

8. What was formerly the most important reason for consignment selling?

9. Does wholesalers' consigned stock represent an inventory for the wholesaler or for the manufacturer?

10. What two important trade practices are credited to Isaac Singer?

11. What is the general principle of selling by installment?

CHAPTER VI

1. Name five qualifications that should be observed in selecting an article to be sold by mail.

2. In which field of distribution does one find the greatest number of catalogues? Industrial or consumer?

3. What types of products will probably always be sold by direct solicitation?

4. About what percentage of manufactured goods is sold directly to the retailer?

5. Name a few of the disadvantages in selling the retail trade direct.

6. Define a super market. Do you know striking exceptions to the definition given in this chapter?

7. What are the advantages claimed for super markets?

8. What is the chief expense of most grocery stores?

9. Why was the Robinson-Patman Act enacted?

10. What is the idea behind the various state laws assessing taxes against the chains?

11. Are state chain-store taxes for the benefit of the people of the state as a whole?

12. What are the three distinct classifications of department lessees in department stores?

13. Name three reasons for leasing a department in a department store.

14. Name three arguments that may be offered to rebut each of the foregoing reasons.

15. What change in selling methods should result in great economies in manufacturers' selling costs?

CHAPTER VII

1. Under what circumstances do the services of a wholesaler become essential?

2. What are the distributive functions, whether performed by the producer or by intermediary selling agencies?

3. What services are rendered by the wholesaler's salesman in addition to selling?

4. What is meant by selective wholesale distribution?

5. If a dealer makes a 33⅓ per cent mark-up on cost, what is his gross margin?

6. What mark-up on cost should a wholesaler make in order to provide for a gross margin of 10 per cent?

7. Name a few products that are sold directly from manufacturer to consumer.

8. Why are products, such as mentioned in question 7, sold directly to consumers?

9. What are the three main channels for distributing manufactured goods? What are the principal exceptions to these channels?

CHAPTER VIII

1. Who were among the first advertisers to build up a market by advertising?

2. What are the four classes of merchandise when goods are considered from the sales angle?

3. What are some of the difficulties encountered in selling such products as nails in an inelastic market?

4. What were the original loss leaders?

5. How are branded convenience goods usually distributed?

6. Name five products for which there have been cooperative advertising campaigns by competitors.

7. What is meant by vertical cooperative advertising?

8. What is the basic idea of communicating sales messages to consumers by and through the retailers who supply them?

9. Give an outstanding advantage of store demonstrations.

10. Name several dealer tie-ups.

11. Discuss the subject of advertising allowances.

12. Interview several dealers, and report on what they consider effective dealer helps. Note: This may be a written assignment.

CHAPTER IX

1. Name a few of the duties of the advertising manager.

2. Suggest how you would go about the task of selecting an advertising agency.

3. Upon what services is agency remuneration based?

4. What is an outstanding criticism of the agency commission system?

5. With which classification of merchandise is the guaranty the most effective and the most troublesome?

6. What is the difficulty involved in guaranteeing a product like baking powder?

7. What is the purpose of the guarantee?

8. Name five reasons for bringing out new products under a widely accepted trade mark.

9. Name a line of branded food products in the market that you know best that has only its leader advertised.

10. What are the present policies for guaranteeing (*a*) automobiles; (*b*) watches; (*c*) house refrigerators; (*d*) automobile tires?

CHAPTER X

1. What are the three fundamental ways of protecting the good will of a business?
2. What rights are given the owner of a patent?
3. What are design patents?
4. What is a copyright?
5. What is the primary purpose of a trade-mark?
6. Give an example of a trade-mark which is also a trade name.
7. Suggest five requirements of a good trade-mark.
8. Which type of brand lends itself to the highest degree of aggressive selling and advertising? Individual or blanket brands?
9. What determines ownership of a trade-mark? Of a patent?

CHAPTER XI

1. What is a private brand?
2. May a wholesaler or retailer remove the manufacturer's brand and place his label in its place?
3. In the case of private-brand merchandise, is the ultimate consumer the manufacturer's customer?
4. Distinguish between margin and profit.
5. Why do private brands find favor among distributors?
6. What difficulty would present itself if the government attempted to establish quality standards for such products as foods, drugs, fabrics, and other household supplies?
7. Does the U. S. Patent Office register grade brands or labels?
8. What is a common dealer objection to the nationally advertised brand?
9. Hand in a list of private brands. Opposite each private brand, list the name of a national brand of a competing product.

NOTE: A class problem. Could also be made a more elaborate project by mounting actual labels.

CHAPTER XII

1. What is the *right* price?
2. Discuss market flexibility.

3. Mention a few types of products that you consider of low market elasticity.

4. What types of products have highly elastic markets?

5. What are the principal differences in pricing for a flexible and for an inflexible market?

6. What has been one of the chief factors that caused the rapid growth of the automobile?

7. What invited competition after the Gillette safety razor had been firmly established?

8. What conditions influence the sale of by-products that do not pertain to the main product?

9. Name three bases, besides the amount of investment, that are sometimes used for calculating profit.

10. By what formula is Churchill's price theory expressed? What are its general limitations?

CHAPTER XIII

1. What is one of the elemental price policy decisions that must always be made?
2. To what should quantity discounts have a definite relationship?
3. What is the average life of an independent grocery store?
4. What kind of competition is said to be the worst of all competition?
5. Under what circumstances may a price structure become highly involved?
6. What is a cumulative quantity discount?
7. Name seven arguments in favor of quantity discounts.
8. Name seven arguments in favor of a one-price policy.

CHAPTER XIV

1. What was the first Federal law passed specifically to regulate trade?
2. When was the Federal Trade Commission Act passed, and what was its purpose?
3. When was the Clayton Act passed, and what was its purpose?
4. At what was the Robinson-Patman Act of 1936 primarily aimed?
5. What was the purpose of the Miller-Tydings Act of 1937?
6. What was the purpose of the Wheeler-Lea Act of 1938?
7. What is meant by price maintenance?
8. What are the chief duties of the Federal Trade Commission?

CHAPTER XV

1. Name five claims made for premium advertising.
2. What is a premium?
3. With which classification of goods are premiums most commonly used?
4. Approximately what percentage of the premiums used are for the purpose of facilitating the distribution of goods rather than for the purpose of influencing consumers?

5. How can a premium plan be used to inform the manufacturer of the disposition made of his goods by wholesalers?

6. Name several specific purposes for using premiums.

7. Name several types of premium offers.

8. Discuss the accuracy of the statement: Premiums are not something for nothing, but something in place of nothing.

CHAPTER XVI

1. Is it true to say that the package is a part of an advertising campaign?

2 What conditions should be studied before a package is designed or redesigned?

3. What is the ideal method of testing a package?

4. Name a difficulty frequently encountered by the industrial designer.

5. What package problem can be attributed to the growth of super markets?

6. Suggest a guiding principle of procedure that should be followed in selecting the package material.

7. Who decides ultimately what is the most appropriate size or sizes for a package?

8. What detail is frequently overlooked when designing a package?

9. What is the weakness in using a container for a package with the idea that the container will have other uses when empty?

CHAPTER XVII

1. In which field of merchandise does sampling find its greatest value?

2. Why is it extremely important that the sample give satisfaction to the consumer?

3. How was Beech-Nut bacon sampled?

4. Who are the most active users of samples?

5. By what method are breakfast foods usually sampled?

6. What is the size of the sample of coffee distributed by Hills Brothers when opening up a new market?

7. How does White Rose tea increase distribution?

8. What sales promotion effort is closely allied to sampling?

9. Name several different methods of sampling.

10. Why do druggists like to have small packages of advertised cosmetics sold in variety stores, when druggists refuse to handle those small packages?

CHAPTER XVIII

1. What is a sales forecast? Why is it so important?

2. What is one of the first steps taken by a manufacturer in making a sales forecast?

3. Name some businesses that generally run counter to the business trend.

4. What business indicators may be used other than the more comprehensive curves of general business activity?

5. Name four ways of establishing an advertising appropriation.

6. Name five items that, according to the text, should not be included in the advertising budget.
7. What signs have been found to mark the advanced stages of business depression?
8. Where should the greatest sales and advertising effort be directed?

CHAPTER XIX

1. How was dealer distribution secured for Drāno?
2. How were wholesalers influenced to stock Drāno?
3. What has always been the price-maintenance policy of the Drackett Products Company?
4. In modern marketing procedure, does advertising precede or follow dealer distribution of the product?
5. What were the laboratory specifications on Windex?
6. Why is it that trade margins can be figured rather accurately by the manufacturer even though he does not control the retail price?
7. Why was it so difficult to introduce Cellophane?
8. Who was the first user of Cellophane?
9. By consulting the Standard Rate and Data Service, give the approximate cost of the first Windex campaign.

CHAPTER XX

1. Why is the United States called an industrial nation?
2. Why, according to the census figures, is the total wholesale business of the country considerably in excess of retail sales for the country as a whole?
3. Why is it that the industrial distributor has little resemblance to the class of wholesalers generally recognized by that term?
4. Name five products that are purchased as often from industrial distributors as from the producers.
5. What percentage of the goods in the industrial field are sold direct?
6. What types of goods are usually sold direct from producer to user in the industrial field?
7. What company has received a great deal of collateral advertising in the industrial field?
8. What functions are performed by the commodity exchanges in addition to futures sales?
9. Can you name other manufacturers' products besides dry ice, that require numerous manufacturing plants?

CHAPTER XXI

1. To enlightened management, what will determine the prosperity of the business?
2. Distinguish between propaganda and publicity.
3. Why is public-relations work becoming more and more necessary.
4. What is the very essence of press agentry?
5. Distinguish between "free publicity" and stunt advertising.

6. What is the usual procedure in present-day product publicity?
7. What may handicap industrial publicity?
8. How is it possible for publicity to serve a firm better than advertising?

CHAPTER XXII

1. According to the text, just what is the consumer movement?

2. What, during the period 1900 to date, have been instrumental in stimulating an interest in a higher standard of purity for all foods?

3. How may the muckraking books at the close of the twenties be described?

4. What organizations established thousands of stores on a modified cooperative basis during the hard times of the early seventies?

5. What, during the depression years, had a tendency to encourage the "consumer movement," as it is now called?

6. There is a prodigious amount of printed matter devoted to instructing purchasers about products they buy and how best to use them. Where does most of this reading matter appear?

7. What difficulties stand in the way of informative labeling?

8. Name several organizations in the consumer movement.

CHAPTER XXIII

1. What is the purpose of the Traffic Audit Bureau?

2. Who controls the Traffic Audit Bureau?

3. What research organization is known for its checking of the popularity of radio programs by the coincidental method?

4. What do the Nielsen reports show?

5. What important field work in radio research is done by Crossley, Inc.?

6. What information is revealed by the L. M. Clark magazine service?

7. What are the objects of the L. M. Clark newspaper service?

8. What is the principal function of Media Records?

9. What are the principal services offered by the Daniel Starch organization?

10. What information may be secured periodically from the Publishers' Information Bureau, Inc.?

11. What is the function of the Audit Bureau of Circulations?

12. Describe the Psychological Corporation's Brand Barometer?

CHAPTER XXIV

1. Mention some of the advantages of unimpeded trade.

2. What is a trade barrier?

3. Under what four categories of state powers have the state trade barriers been enacted?

4. Into what three main groups may the state-barrier types of taxes be roughly divided?

5. What was responsible for giving the states complete freedom to deal with the sale of liquor?

6. What action to interfere with interstate trade has been taken by the dairy states?

7. What action to interfere with interstate trade has been taken by the Southern nondairy states?

8. How do motor-vehicle laws interfere with interstate trade?

9. What is being done to prevent the growth of barriers to interstate trade?

Appendix B

THE MARKET INDEX AS USED BY CLUETT, PEABODY AND COMPANY, INC.

In the following paragraphs are a description and explanation of the market analysis made by the manufacturers of Arrow shirts, ties, underwear, etc. In this the multiple correlation is used, but with many more factors in the index than in the example in the text. This also involves *weighting*. That is, if one factor is regarded as more influential than another, an allowance is made for the difference. For example, among the 20 factors and more are apparel sales and income-tax returns. If the former were regarded as twice as influential as the latter in establishing sales potentials for shirts, it would be doubled in value. Suppose there were 100 income-tax returns in trading area *A* and 200 in *B*, with apparel sales equal in each district, then the weighting of the apparel sales would negate the larger number of income-tax returns in area *B*. Where sufficient data are available, it is possible, by statistical methods, to get a fairly exact relationship of the different factors.

But to give an adequate presentation of multiple correlation would require several chapters of a treatise on statistics. So the authors are leaving the discussion of methods to the statisticians. In the following discussion, the topic is presented as Cluett, Peabody and Co., Inc., presented it to their salesmen.

Arrow's Marketing Problem.

With the realization of the importance of market research to our business, we set out some years ago to make a complete analysis of our company's distribution. We wanted to know accurate answers to the following questions that puzzled us.

1. How much all-brand shirt business is done in the United States?

2. How much of the general business is Arrow?

3. How fast has the Arrow business grown in relation to the general shirt business?

4. How can we determine as accurately as possible the potential shirt market for each sales office, each salesmen's territory, and each town of a population of ten thousand or over within each man's territory in order to

have a common yardstick to measure Arrow's own accomplishment in each category?

5. What, if any, relationship exists among direct-mail, window-display, local-advertising, and national-advertising impressions, in their effect on sales?

6. What exclusive statistical material can Arrow provide its salesmen regarding the market each man covers and its future potentialities?

7. What material on individual markets can be supplied to retailers to help them ascertain their position in a city or town in relation to the town's total potential?

8. By what means could a salesman be able to see at a glance every strong and weak spot in his territory—and, furthermore, determine how strong and how weak?

With our specific problems set clearly before us, we followed the most scientific statistical procedure in getting our data correlated and in working order.

Procedure.

Our first act was to separate the known factors from the unknown. We knew, for instance, that the total shirt business for the United States could easily be obtained from the census of distribution. However, we did not know, and no one knew, the exact percentage of the total shirt business attributed to each city and town in the United States. We, therefore, proposed to find this all-important factor by developing a percentage of the United States' total for each town, by combining known factors of the town that were particularly pertinent or relative to shirt sales.

Method.

In our calculations, we correlated no less than twenty-five factors, some of which were: retail sales distribution, income tax returns, apparel sales, value of manufactured products, population, literate white population, spendable income, and magazine circulation. By various weights assigned to each factor according to its relative importance to our market, we arrived at a composite index number with an average deviation of less than 1 per cent for each city and town of a population of ten thousand or over, as broken down by states.

Since only the retail sales of the total shirt business for the United States is given in the census of distribution figures, we applied each town index to this total, thus pro-rating among all cities and towns every dollar spent on shirts (work shirts excluded) in the United States.

In order to substantiate our estimates, the Gallup field organization tabulated all the retail-shirt sales of every store in the test towns, from major cities to small towns in all parts of the country. The character of the test towns varied from labor industrial centers to white collar capital cities, from high literate ratings to low literate ratings. Thus a broad sample was obtained. Although the findings of the research staff did not coincide with our dollar estimates of all-brand shirt retail sales, our index percentages for each town were found to be correct in each town tested. Therefore, on a

relative potential basis, the dollar and cents estimate of all brands of shirts could be varied up or down to any degree by a constant; yet, percentagewise, the proportions would be the same.

Determining Territory Potentials.

Statistical bureaus have pointed out that there are approximately 626 principal trading centers in the United States, each offering a variance in sales potentialities—and each a trade attraction to its hinterland area.

The ideal sales setup would have an equal distribution of potential sales territory uniformly distributed among all salesmen. Obviously, geological boundaries, routes of communication, and logical trading areas make such an arrangement practically impossible. Therefore, the next best control for sales management is to find out the exact potential existing in each man's territory so that erroneous opinions will not be made in weighing one salesman's accomplishments against others. Market research supplies this yardstick.

Having shown already how we developed an index for each town and city, our next problem, in order to make our analysis applicable to our present sales-territorial setup, was to ascertain the potential of each salesman's territory as an integral whole.

First we allocated each city and town in each man's territory by counties. Wherever we had two men both going into the same borderline county, we divided the county proportionately according to the potentials of towns and cities covered by each man in that particular county. We used the county as our measuring unit because it is the smallest political boundary for which statistical material is provided by the census.

After each county in the United States had been allocated to some one salesman, the percentage potentials of each county were added together, and thus we derived a total potential for each salesman, along with our previous estimate for each of his respective cities and towns with a population of 10,000 or over.

Practical Uses of Market Research.

No better explanation can be made for using this material and the type of result to be obtained from it than the method employed by one of our own Arrow salesmen as recorded in the following letter:

Gentlemen:

I want to take this opportunity to let you know how much I appreciate and how helpful it has been to me in my sales record, your breakdown of the sales performance in the cities of 10,000 and over.

Sometime ago, you published a bulletin showing the percentage we should do in each city, according to population. This was very helpful to me, and I am going to cite you two instances where it has helped the sales of our product.

In the city of———, there was an old arrangement and our percentage in this city was under par. Whenever this particular account was approached on a break-up of the arrangement, he immediately hit the ceiling and there

was nothing we could do peacefully about it; however, when I had your figures, I took them into the merchandise man and explained to him the proposition, and that his city would have to come up to these figures.

After he reviewed these figures he saw our point in a different light, and we immediately sold two more accounts in that city, and the business in the city of ——— has almost trebled itself.

In the city of ———, we had a confined arrangement to two accounts, and these accounts would not listen to us selling anybody else, until I showed them the figures where their city was under par and it was necessary to bring the percentage up to average. After seeing the figures, both of them took an entirely different attitude in the matter and allowed me to sell two other accounts in the city.

Needless to tell you that these cities today are way above our average.

I thought you may like to have this information for your own use, just to let you know the results your system has obtained in my territory, and I want you to know that I am very grateful for it, and hope you continue to send me all the statistical information you have at any time.

Very truly yours,

Intelligent use of market research, as illustrated by this man, should produce exceptional results in developing a territory. Market Research figures supplied to you should be used judiciously, with a sales plan or point behind them. It is of little value merely to show these statistics to an account and let it go at that.

What Is the A & M Plan?

The new *advertising* and *merchandising* plan, called the A & M plan has evolved from our Market Research studies. It is the name we have given to our new mode of scientific selling which embraces and coordinates all phases of advertising, market research, related-item selling, and merchandising in one planned program, all aimed to facilitate dealer sales of Arrow merchandise.

Market Research, an integral part of your A & M plan, should be as familiar to you as a staple style number, or form 44. Form 44, while it provides sales figures this year compared with last year, with the percentage of increase or decrease, is merely a sales-accounting record.

Market Research goes a step further in that it will help each salesman to rate his own *accomplishments against the office average* or against the United States' average. It also provides a potential to shoot at and, accordingly, a comparison of present Arrow shirt sales with that potential. By referring to these comparisons for sales in every town, strong and weak towns, with the degrees of strength or weakness, can be ascertained. Thus a salesman can intelligently plan his sales program and concentrate his time and energy where it will do the most good.

How to Use Market Research for Opening New Accounts.

Each weak city that shows up in a territory should be investigated immediately. For instance, if a town is below par and there is an opportunity, and

you consider it advisable, to open up one or more reputable new accounts, Market Research figures should be shown to present accounts, stressing the fact that the amount of Arrow business done in the town is below par. (Par is the percentage of Arrow to all brands for a territory, sales office, or United States average. Below par means below percentage of performance of all three—territory, office, and United States' averages.) Explain that either the present accounts will have to absorb the differential or else new accounts will have to be opened. Nine dealers out of ten would see the logic of such a proposition and amicably agree to further Arrow expansion. By the same token, Market Research may be used to refuse accounts, where distribution is satisfactory at present.

How to Use Market Research to Develop Old Accounts.

For the most part, Market Research is most helpful in developing old accounts that are not pushing Arrow to the extent to which they might. By showing a dealer that his store has a low percentage accomplishment, in relation to the potential business in his own town or as against other dealers in towns the same size or as against the office average, you awaken his interest. If a buyer, merchandise manager, or owner of a store can be convinced of the great Arrow potential that exists, and you point out to him how he can gain a large number of new customers by carrying a more complete Arrow line and by featuring Arrow in window displays, direct mail, and local advertising, he will most certainly increase his present stock of Arrow.

On the other hand, if you can show the dealer the consistent steady growth of Arrow in his city as compared to his own declining furnishing sales (if that is the case) he will surely wake up to the fact that Arrow is the product he should push in his store and make his business grow with Arrow's general consumer acceptance.

Warning.

On explaining your market research findings to dealers, do not make the statement that Arrow potentials are based solely on the population of a town. While population has its influence, it certainly is not the governing factor. For instance, you may take fifteen cities with a population of ten thousand and over, and find a great variance in potentials because of external influences not registered by population statistics.

Scope of Market Research.

In every sales analysis one finds two sets of controlling factors—external and internal. External relate to such things as markets and business conditions; that is, phenomena outside Cluett, Peabody's control, but subject to study and analysis. Internal factors cover our own activity in the sales field —the most positive being our past sales experience in each territory.

Many large companies base their quotas and analyses on past sales performance—either entirely or in great part. This method is generally considered the simplest and sometimes the most desirable. The facts are backed by tangible evidence and the system may work "after a fashion." In the analysis of Arrow's markets, however, we considered a correlation of

both past performance and market potentialities. Past performance used as the sole index gives only the efficiency of a given part of the sales force, or shows up high sales perhaps due to intensive local or national advertising or low sales for opposite reasons. It is, therefore, practical that a true sales quota should be made up on the basis of market potentialities plus company actualities. The chief reason should be to bring the efficiency of the sales force into line with the market, *rather than the market into line with our past sales*. If our analysis were based solely on the criteria of sales over a period of years, we would determine only what the sales force has done before—not what ought to be done *now* and in the future on the basis of potentialities existing in the market.

Appendix C

WHOLESALERS' SALESMEN MAKE 7.6 + HARDWARE STORE CALLS DAILY![1]

Ask the average hardware dealer how much time a hardware wholesaler's salesman spends, on an average, making each call and how many calls a day the average jobber's salesman makes and he would probably be at a loss to answer the questions. Yet the answers to these questions have a direct bearing on the operating costs of all branches of our industry. Lower costs per call mean lower overhead for the wholesaler. Lower overhead for the jobbers permit further expenditures for the improvement of delivery and shipping services.

Data supplied by 100 wholesale houses, in all parts of the United States, employing a total of 1485 traveling salesmen (see schedule A) indicate the average number of calls per man, per day, is 7.6 plus, the average call taking one hour and 15 minutes. The average salesman calls on his prospects and customers at least once in 12 business days. Fifty-five of the 100 houses have their salesmen make calls but five days a week, 15 houses have their men make calls five-and-one-half days each week and 22 houses have their men make calls six days a week.

Reports from 93 wholesalers employing 1422 salesmen indicated these men make a total of 10,811½ calls a day, or an average of 7.6+ calls a day (see schedule B—page 569). Eighty-seven houses reporting on the length of the average call, stated that their 1349 salesmen made calls averaging one hour and 15+ minutes (schedule C—page 570). Calls are made on each prospect or active account on an average of once in 12+ business days by 1458 salesmen employed by the 98 houses which reported on frequency of calls (schedule D—page 571).

Differences in territories covered by the different houses and by the individual salesmen are, of course, governed somewhat by the distances between each call. Four wholesalers employing a total of 36 salesmen reported that each of their men averaged but three calls a day. The largest average

[1] By Kenneth A. Heale, associate editor, *Hardware Age*. Reprinted from *Hardware Age*, May 18, 1939.

number of daily calls was that of a distributor employing eight salesmen, each of whom averaged 30 calls a day.

The length of the average call per man varied from 25 minutes to four hours per store. As to over long calls, the sales manager of one mid-western wholesale house places part of the blame on the dealer and part on the shoulders of the salesmen. He says, "It seems that most retail hardware

Schedule A.—Number of Salesmen Per House
100 Houses Reported a Total of 1485 Traveling Salesmen
Column A indicates number of houses
Column B indicates number of salesmen for each

A	B	A	B	A	B	A	B
3	2	6	10	3	18	1	40
6	3	2	11	1	20	1	42
6	4	7	12	1	23	1	46
11	5	3	13	1	24	1	50
9	6	3	14	3	25	1	53
3	7	4	15	1	28	1	60
8	8	3	16	1	30	2	75
1	9	4	17	1	35	1	81

merchants are in the habit of unnecessarily taking up quite a good deal of the salesmen's time. Then again the salesman having become accustomed to this situation has a lot of jokes and other routine which, in my opinion, is not necessary."

The necessity of "doubling back" to get the attention of a retail store owner or buyer is, in some instances, responsible for a low number of calls per day. Doubling back consumes a tremendous number of hours in the course of a week. While 55 houses reported that they had no complaints of this nature, nine distributors complained that this was a trouble encountered by their men, and one house stated that this often happened. One distributor reported that "doubling back" was a frequent occurrence met with in city stores, and 34 wholesalers indicated that while this did not happen constantly, they had received complaints on that score from their men.

While wholesalers gave the hardware dealer a pretty good bill of health as to calls that involve doubling back, they did complain of another time-wasting factor encountered in some stores—that of making the salesmen wait for unnecessarily long periods to see the proprietor or buyer. Says the president of an eastern wholesaler regarding "doubling back" and "unnecessary waiting," "Of our five outside salesmen three report that no doubling back is necessary. Our men send out a call postal card indicating when they will call, giving the day and the time. Thus they do not have any great difficulty along this line. We have one dealer who is insistent that he have a call card from the salesman, advising him what items the salesman intends to talk to him about. The dealer then checks on those lines and knows exactly what he wants to buy when the salesman arrives. For his regular fill-in orders this dealer keeps a want schedule so that he can quickly tell what he needs to order. This system benefits both the dealer and the salesman who calls on him.

"Whether we like it or not, there is in every kind of business a certain type of buyer who feels it necessary to impress the salesman with his own (the buyer's) importance. My candid reaction to this type of buyer is that he loses more than the salesman does. In failing to create good will he loses the opportunity to purchase the best bargains. If there is a delivery problem such a dealer is one of the people whose order is kept at the bottom of the list."

A southern wholesaler, whose men have no complaint on "doubling back," says, "Salesmen advise us that considerable time is lost when they have to wait and see buyers who keep them waiting while they attend to matters that could be just as well delayed until the salesman has left the store. Consideration of the salesman's time, by buyers, would be a very valuable aid to the salesmen."

An eastern wholesale executive says, "Our salesmen complain of having to double back in their tracks to get the attention of buyers only in the *inefficiently operated stores*. We would suggest that each dealer arrange a definite time for salesmen to call—a time which would be convenient to both the store and the salesman At the present time 90 per cent of our dealers follow such a plan to the satisfaction of both the dealer and our salesman."

An executive of another eastern house says, "Our salesmen will not 'double back' unless there is a particularly good reason for doing so. When the salesmen cannot see the buyers they try to contact them on the telephone, unless their routes are so arranged that they can repeat the call when on their return to headquarters by way of that particular town."

A mid-western wholesaler tells us that, ' 'doubling back' and wasting salesmen's time are very common complaints. Very often a merchant wastes a salesman's time by keeping him standing around when the dealer could just as well talk to the salesman—if only for a few moments." Another wholesaler in the same state compliments dealers by saying, "There are very few complaints of this nature because the average dealer realizes the value of the salesman's time."

Interesting are the comments on these two problems as made by the president of a western wholesale house. He says, "City salesmen are frequently asked to come back at a later time. This rarely happens to salesmen calling on country accounts. The greatest loss of time to our salesmen visiting hardware stores in the country results from frequent interruptions of the sales interview when the buyer or proprietor stops to wait on customers or to visit with his friends."

While his salesmen do not have to "double back" another eastern jobber states, "They often have to wait for long periods while dealers chat with customers." Another eastern distributor's sales manager says, "I think the dealer could be a little more thoughtful as to a traveling salesman's time. I don't believe there are any buyers who intentionally waste the time of the salesman. However, in some stores the salesman must wait for everything else to be attended to before the buyer gives him any attention."

The president of a far-western wholesale house says that some of his salesmen complain that some dealers waste too much of their time. "In other words," he says, "these dealers fool around and don't seem to realize a

The Jobber's Salesman and His Day
Based on Reports from 100 Hardware Wholesalers

	No. of traveling men	Days a week calls made	Salesmen's calls per day	Frequency of calls	Length of average call	Individual territories	Reports on calls *Regular Form	Complaints on doubling back	Personal appearance at headquarters
1	5	5	3	every 3 weeks	1½ hours	....	no	seldom	every 2 weeks
2	53	6	6	every 2 weeks	1½ hours	40 miles	daily	not often	every 60 days
3	40	5	5	every 2 weeks	1½ hours	3000 sq. mi.	daily*	no	varied
4	5	6	6	once a month	1½ hours	50 sq. mi.	on complaints	no	every week
5	60	5½	10	every week	45 minutes	60 accts.	daily*	no	every week
6	8	5	5	every 2 or 3 weeks	....	50 mi. radius	weekly*	no	every week
7	3	5	13	every week	45 minutes	....	no	no	twice a week
8	18	5½	6	every 2 weeks	2 hours	varied	no	seldom	every 2 weeks
9	18	6	10	every 2 weeks	45 minutes	150 mi. radius	each call*	no	every week
10	24	...	10	every 2 weeks	30 minutes	varied	each call*	no	every 2 months
11	25	6	6	every week	2½ hours	varied	no	no	every 3 months
12	7	6	8	every 6 weeks	1 hour	varied	no	no	every 2 weeks
13	6	5	11	every 2 weeks	45 minutes	150 miles	daily	no	every week
14	16	6	6	every 2 weeks	1 hour	200 sq. mi.	each call*	very little	once a month
15	5	5	10	every 2 weeks	45 minutes	varied	daily*	no	once a month
16	12	5	7	every 2 weeks	40 minutes	30 mi. radius	daily*	very few	every week
17	46	5½	6	every 2 weeks	1 hour	100 accts.	daily*	very little	every 3 months
18	12	5	4	every 2 weeks	2 hours	3 or 4 counties	daily*	often	every 30–60 days
19	15	5½	7	every week	1½ hours	5 counties	no	few	every 30 days
20	15	6	3	every 2 weeks	1 hour	60 towns	daily*	no	every 2 months
21	13	5½	10	every 2 weeks	1 hour	8 counties	daily*	on city calls	3 or 4 times a yr.
22	6	5	15	every 3 weeks	45 minutes	....	daily*	yes	every day
23	6	6	4	every 2 weeks	....	varied	no	no	varied
24	30	5½	8	every week	1 hr. 45 min.	....	daily	sometimes	twice a week
25	12	5½	5½	every week	2 hours	....	sometimes	occasionally	twice a week
26	17	5	....	varied	....	varied	no	no	once a month
27	15	5	8	every 2 weeks	30–45 min.	30 sq. mi.	each call*	sometimes	every 2 weeks
28	17	5	10	every 2–3 weeks	1½ hours	150 sq. mi.	daily	sometimes	every 4–6 weeks
29	17	5	4	every 2 weeks	1 hour	varied	new men	very little	every 30 days
30	4	...	6	every 2 weeks	3 hours	40 mi. radius	each call*	yes	every week
31	6	5	6	every 2 weeks	1½ hours	varied	daily*	few	every week
32	28	6	7	every 3 weeks	45 minutes	10 counties	daily*	few	every 3 months
33	10	5	7	every 2 weeks	1 hour	150 sq. mi.	no	few	every week
34	12	5	9	every 2 weeks	varied	150 mi. radius	no	no	every week
35	6	5	12	every 3 weeks	....	100 mi. radius	each call*	no	every week
36	2	6	3	once a month	4 hours	50 mi. radius	daily*	few	every month
37	14	5	8	every 2–3 weeks	1 hour	100 mi. radius	no	no	every week

38	6	5½	6	every 2 weeks	1½ hours	75 mi. radius	weekly	very little	twice a week
39	5	....	11	every 2 weeks	30 minutes	112 accts.	no	no	every month
40	4	5	9	every 10–12 days	50 minutes	5 counties	no	no	every week
41	4	5	....	every 2 weeks	1 hour	....	no	sometimes	every week
42	7	5	4	every 2–3 weeks	2 hours	500 sq. mi.	no	no	every week
43	14	....	5½	every 2 weeks	varied	....	each call*	yes	daily
44	6	5	9	every 2–3 weeks	45 minutes	100 mi. radius	no	no	every week
45	2	5	12	every 4 weeks	1 hour	....	no	no	daily
46	5	5	7	every 2–3 weeks	1 hour	125 accts.	no	no	every week
47	14	5	3	every 2–3 weeks	3 hours	....	each call*	yes	monthly
48	5	5	5	every 2 weeks	1½ hours	50 mi. radius	no	sometimes	every week
49	5	5	10	every 2 weeks	30 minutes	varied	on complaints	sometimes	every week
50	5	5	4	every 2 weeks	30 minutes	150 accts.	no	sometimes	every week
51	15	5	....	every 2 weeks	....	varied	no	no	every week
52	16	....	5	every 2 weeks	1 hour	60,000 sq. mi.	no	no	every 3 months
53	20	6	5	every 2 weeks	1 hour	7 counties	each call*	yes	every 6 months
54	2	5	....	every 2–3 weeks	1 hour	300 mi.	no	no	every week
55	3	6	7	every 2 weeks	1½ hours	500–700 mi. weekly	each call*	no	every week
56	10	5	12	every week	25 minutes	....	each call*	no	every week
57	8	5	30	every week	....	....	no	no	every week
58	50	6	6	every 2 weeks	1½ hours	300 mi. a week	each call*	no	once a year
59	5	5	10	every week	30 minutes	100 mi.	no	no	every week
60	8	5	5	every week	1 hour	100 mi.	no	no	every week
61	81	6	8	every week	1½ hours	varied	each call*	no	every week
62	3	....	20	every week	35 minutes	30 sq. mi.	no	yes	every other day
63	23	5½	8	every 10 days	....	varied	no	sometimes	every 2 weeks
64	17	5	7½	twice a month	1 hour	varied	no	not often	twice a month
65	5	5	6	every other week	1 hour	100 mi. radius	each call*	no	every week
66	12	5	15	every week	30 minutes	varied	no	no	every week
67	10	5	8	{5 every week 5 every other week}	varied	varied	no	no	every week
68	75	6	6	every 2 weeks	1½ hours	4 counties	no	no	every 30–60 days
69	12	5½	8	every 2 weeks	1 hour	50 mi. area	each call*	no	every week
70	9	6	9	every 2 weeks	1 hr. 10 min.	up to 900 sq. mi.	no	no	every 3 months
71	16	5	6	every 2 weeks	1 hour	150 mi.	no	no	every month
72	13	5½	7	every week	1½ hours	50 mi. radius	daily*	no	4 times a year
73	8	6	7	every 2 weeks	1 hr. 15 min.	250–500 sq. mi.	no	not often	4 times a year
74	25	5	10	every 2–3 weeks	1 hr. 15 min.	6–7 counties	each call*	yes	every week
75	75	6	5	every 2 weeks	1½ hours	50 mi. radius	daily*	yes	every 2 months
76	8	5	8	twice a month	1 hr. 10 min.	400 mi. a week	each call*	no	every week
77	3	5	18	every 3 weeks	....	....	no	no	every week
78	4	5	10	every 2 weeks	45 minutes	50–75 mi. radius	no	not often	twice a week
79	4	5	10	every 3 weeks	1 hour	150 mi. radius	no	not often	every week
80	3	5	15	every 1–3 weeks	1 hour	100 mi. radius	no	sometimes	every week
81	6	5	10	every 4 weeks	45 minutes	50 mi. radius	no	no	every 2 months
82	25	6	7	every 2 weeks	45 minutes	varied	no	no	every 2 weeks

THE JOBBER'S SALESMAN AND HIS DAY.—(*Continued*)
Based on Reports from 100 Hardware Wholesalers

	No. of travel-ing men	Days a week calls made	Sales-men's calls per day	Frequency of calls	Length of average call	Individual territories	Reports on calls *Regular Form	Complaints on doubling back	Personal appearance at headquarters
83	8	5	8	every 2 weeks	1 hr. 15 min.	50 mi. radius	no	no	4 times a year
84	8	5½	8	every 2 weeks	1 hour	varied	each call*	no	every 3 weeks
85	11	5	3½	every 2 weeks	2 hours	varied	no	very little	every week
86	7	....	9	10 days–2 weeks	35 minutes	250 sq. mi.	no	very little	daily
87	35	6	5½	every 2 weeks	1 hr. 50 min.	55 towns	daily*	no	5–6 times a year
88	8	5	6	every 2 weeks	1 hr. 15 min.	50–75 mi.	each call*	no	every week
89	42	5½	6	every 2 weeks	1½ hours	30 towns	daily*	not many	once a month
90	6	6	4	every 2 weeks	1 hr. 45 min.	3–4 counties	no	sometimes	every week
91	4	....	....	every 2 weeks	....	varied	every week*	no	every week
92	5	5½	8	every 3 weeks	40 minutes	50–75 mi. radius	each call*	no	every week
93	13	5½	4	every week	2 hours	100 sq. mi.	daily*	no	every week
94	3	5	6	twice a month	50 minutes	80 mi. radius	no	no	every week
95	11	5	....	every week	30 minutes	50–75 mi. radius	no	very little	every week
96	10	5	....	varied	....	varied	daily	sometimes	varied
97	10	5	7	every month	2 hours	....	each call*	yes	every 6 weeks
98	12	6	8	every 2 weeks	1 hour	200 sq. mi.	each call*	not often	every 45 days
99	10	5	8	every 10 days	1 hr. 15 min.	....	no	seldom	every week
100	18	5	12	every week	25 minutes	30 mi. radius	every week*	no	every week

traveling salesman's time is valuable." The sales manager of a southern house, opposed to "doubling back," says, "Our salesmen do very little retracing to get the attention of their dealers. If they cannot get the attention of the dealer on the first call they go on to the next account. Personally, I think 'doubling back' on a call is bad practice and can be avoided by the salesman making it clear to the dealer that he has too many other accounts to permit retracing on his calls."

SCHEDULE B.—NUMBER OF CALLS MADE PER DAY PER SALESMAN

Out of a total of 1485 *salesmen employed by* 100 *houses reports were made on* 1422 *salesmen employed by* 93 *houses. These figures indicate that the average salesman in the group makes* 7.6+ *calls per day.*

Number of houses	Number of salesmen	Average number of calls per day per salesman
4	36	3
1	11	3½
7	66	4
7	172	5
3	61	5½
16	378	6
10	129	7
1	17	7½
14	243	8
5	38	9
12	186	10
2	11	11
4	36	12
1	3	13
3	21	15
1	3	18
1	3	20
1	8	30

An eastern house eliminates "doubling back" by having its salesmen make their calls at approximately the same hour of the same day, every two weeks. This company's sales manager says, "In this way the customer anticipates the visits and, in many cases, is waiting for the salesman." Another jobber in the same state says, "Our regular salesmen do very little 'doubling back.' If the dealer is away or for some reason cannot see our salesman, the salesman usually calls the dealer on the telephone later in the day." A midwestern sales manager says, "Our salesmen follow a definite schedule so that the dealer knows when to expect them and is ready to see them."

Says another eastern wholesaler, "Our salesmen have been complaining for some time, especially the local salesmen, of the difficulty they have in getting in and out of a man's place of business without spending an unreasonable length of time. Our salesmen are naturally ready to give all the time that a customer needs in connection with his purchases or for the discussion of any business problems the dealer may have. Many dealers, however, keep our salesmen needlessly long because of their failure to maintain 'want books,' or because they allow themselves to be interrupted by customers whom their sales clerks could just as well serve. Other dealers make unjustifiably longer the calls our representatives make by not giving thought to the fact that the salesman's only stock in trade is his ability and his time."

SCHEDULE C.—LENGTH OF AVERAGE CALL BY WHOLESALE SALESMEN

Based on reports for 1,349 salesmen employed by 87 houses, the average per call is 1 hour and 15 minutes, plus.

Number of houses	Number of salesmen	Average call
2	28	25 min.
7	67	30 min.
2	10	35 min.
1	15	30-45 min.
2	17	40 min.
11	167	45 min.
2	7	50 min.
23	272	1 hr.
2	17	1 hr., 10 min.
5	59	1 hr., 15 min.
16	491	1½ hr.
2	36	1 hr., 45 min.
1	35	1 hr , 50 min.
7	83	2 hr.
1	25	2½ hr.
2	18	3 hr.
1	2	4 hr.

Another eastern wholesaler says, "We do not have much trouble of this kind and we send each dealer a card advising the day and approximate time our representative will call and asking the dealer to leave an order if he is going to be away from the store at the time our salesman calls. Once in a while the dealer will forget to leave the order, in which case our salesman will have to return the next day."

A southern wholesale house sales manager says, "Our salesmen do very little retracing to get the attention of their dealers. They do not usually 'double back' when the buyer or proprietor is out. I think the practice of

'doubling back' is a bad one and can be avoided if the salesman makes it clear to the dealer that he has too many other accounts to permit retracing. In most cases the dealer will give the salesman a hearing when he realizes the problem of the salesman. I believe that most salesmen try to cover too much territory. They have a certain number of established accounts on which they depend for support. I believe that if salesmen had much smaller territories which would necessitate their being on the lookout for new business and would work their territories closer, and would call on the accounts they

SCHEDULE D.—FREQUENCY WITH WHICH SALESMEN CALL ON CUSTOMERS OR PROSPECTS

1,458 salesmen employed by 98 houses make calls on an average of once in 12 + days.

Number of houses	Total number of salesmen	Frequency
17	327	Weekly
2	33	Every 10 days
1	4	Every 10–12 days
1	3	Every 1-3 weeks
1	7	Every 10 days—2 weeks
	(5 every week)	
1	10	Every week, every other week
	(5 every other week)	
50	864	Every 2 weeks
3	28	Twice monthly
9	98	Every 2–3 weeks
7	57	Every 3 weeks
2	8	Every 4 weeks
3	17	Monthly
1	7	Every 6 weeks
2	27	Varied
100 houses	1,485 salesmen	

have been passing up, we could increase our traveling force and secure a greater volume of business. Recently we cut in half the territory of a salesman who had been covering a large territory for more than 30 years. He is selling within a few hundred dollars a month, in his smaller territory of what he did in his former territory. The salesman who got the other half of his territory increased sales $2000 in one month over what that half had originally produced."

Since there is such a variety in the terms in which sales managers express the territories covered by their men, it is not practical to determine any average as to individual salesmen's territories. However, the comments of the southern sales manager quoted in the preceding paragraph give much food for thought. In the matter of wasted time, there is fault on both sides —some salesmen obviously do not use their time to the best advantage,

while others are handicapped by having to wait too long for buyers or proprietors to tend to less urgent matters. Those wholesalers who have their dealers informed as to the approximate hour and the exact day on which their salesmen will call seem to have pretty much of an answer to the problem of "doubling back." It would appear as though those wholesalers whose salesmen have to wait for the dealer's (or buyer's) attention would do well to send their dealers friendly letters outlining the extent to which costs are increased—both for the dealer and the jobber when a salesman has to wait in a store an unnecessary length of time or is forced to "double back." Dealers can save themselves from lost sales, help conserve the salesman's time and thus cut down on both the wholesalers' costs and their own by keeping "want books," a practice followed by many dealers.

While 55 houses have their salesmen make calls but five days a week, their total number of salesmen is 518, or less than 35 per cent of the salesmen whose programs have been summarized. Fifteen houses, employing 315 traveling salesmen report that their men make calls five-and-one-half days a week. These two groups—70 houses employing 834 salesmen do not find it advantageous to have their salesmen make calls on Saturday afternoons (see schedule E) and 22 firms employing a total of 574 salesmen have their men make calls on Saturday afternoons. Although the latter group represents the fewest number of houses, it has the most salesmen of any of the

Schedule E.—Number of Days a Week on Which Salesmen Make Calls

Calls 5 days a week
  55 houses employing total of 518 salesmen
Calls 5½ days a week
  15 houses employing total of 316 salesmen
Calls 6 days a week
  22 houses employing total of 574 salesmen
Did not indicate
  8 houses employing total of 77 salesmen

three groups. While the practice of making calls on Saturday afternoons is probably satisfactory in rural districts where the Saturday rush is greatest in the evening, stores in metropolitan areas and in city districts are often difficult places for the salesmen to get attention of a Saturday afternoon. In fact, many of these stores cater to families whose wage earners are on a five-day week so that customers visit some of these city district stores in a steady flow on a Saturday.

Quite a few houses which do not have their salesmen make calls on Saturday have their travelers who cover nearby territories visit company headquarters on that day for general sales meetings. At these meetings new services, new merchandise, credit problems, etc., are thoroughly discussed, thus putting the salesmen in a better position to appreciate more thoroughly the needs of their houses (schedule F).

Hardware Age believes as stated in *The Hardware Age Platform* that "With proper cost control, distribution from manufacturer-to-wholesaler-to-

retailer will continue the economical and practical method for merchandising most hardware lines." It is the belief of *Hardware Age*, as expressed in the third point in the platform, that, "The wholesaler function cannot be eliminated, though distribution costs could and should be reduced." Only by fullest cooperation between wholesaler and retailer can the costs of wholesale distribution be reduced. And since reduction of the wholesalers' overhead can be accomplished, in part, through the retail dealers' cooperation, one solution to the problem is the shortening of the length of time which the salesman must wait to see the buyer. Some wholesalers would doubtless find it advantageous to make less frequent calls on their accounts, others to make every possible effort to decrease the time spent in the average hardware store by their salesmen.

SCHEDULE F.—PERSONAL APPEARANCE OF SALESMEN AT COMPANY HEADQUARTERS
100 houses, 1,485 salesmen

Number of houses	Number of salesmen	Frequency
4	29	Every day
1	3	Every other day
5	55	Twice a week
47	505	Every week
6	93	Every 2 weeks
1	17	Twice a month
1	8	Every 3 weeks
2	32	Every 30 days
8	117	Once a month
1	17	Every 4–6 weeks
1	10	Every 6 weeks
1	12	Every 45 days
2	87	Every 30–60 days
1	53	Every 60 days
4	120	Every 2 months
8	153	Every 3 months
1	13	3-4 times a year
1	35	5–6 times a year
1	20	Every 6 months
1	50	Once a year
3	56	Varied

SCHEDULE G.—REPORTS ON CALLS MADE

47 houses do not require reports on calls at all
22 houses require reports on each call on a regular company form

6 houses require daily reports, in the salesmen's own style, outlining all calls made
18 houses require daily reports, a special form being provided for this purpose
4 houses require weekly reports, listing all calls, on a standard form
2 houses require reports only on complaints
1 house requires reports on all calls made by new salesmen.

Appendix D

SUMMARY OF FIELD STUDY ON DISCOUNTS

Food Products

Canned Milk.

Quantity discount. None.

Discussion. Net price per case subject to the usual 2 per cent 10 day discount, freight prepaid to jobbing points.

Prices are quoted in carload and less carload quantities. The current differential involved between carload and less carload prices is $.05 per case, and this differential is based purely on the saving effected in freight by shipping in carloads.

Canned meats and soups.

Quantity discount. For carload only, discount 2%.

Discussion. We do not give cash discounts. Our terms are 15 days net.

Food specialties and dietary accessories.

Quantity discount. From 28 per cent to 33⅓ per cent.

Discussion. About 2 years ago we set up a plan of dividing our dealers into two classes, class *A* and class *B*.

Class *A* dealers received an extra discount on certain products, and to become eligible to go into the class *A* list a dealer has to buy $1,000 a year or more. This plan is open to all on an equal basis.

Our line consists of approximately 140 and we have a unique pricing system of our own based on costs. Our products are independently priced, and the discounts range from 28 per cent minimum to 33½ maximum, with an average of about 31 per cent. Those getting class *A* discounts receive these discounts in addition to the class *A* discounts mentioned above.

Cheese and mayonnaise.

Quantity discount. None.

Discussion. On package cheese 12½ and 5 per cent. On mayonnaise 20 per cent.

Sold to wholesale distributors only.

Ginger ale.

Quantity discount. None.

Discussion. All wholesale outlets sold at the same price. In that area of the country where the carload freight rate is up to and not in excess of 25 cents per cwt., a freight allowance of 25 cents per cwt. is made on carload purchases. The purchaser on a less-than-carload freight rate basis, pays the full less-than-carload freight rate.

Cereals.

Quantity discount. For carload or pool car shipments. Certain items 2½ per cent. Other items 4 cents per case flat.

Discussion. Prior to last year we had a list price which constituted our recommended resale price to the retailer. This was subject to trade discount of 12½ per cent on less-than-carload shipments and 15% on straight or pool cars. We changed then to flat price for less-than-carload shipments, subject to 2½ per cent on straight and pool cars.

This change was made because in recent years there has been a decided trend toward flat prices, few wholesalers pay any attention to suggested resale prices, and it simplifies invoices.

Cereal.

Quantity discount. On carloads only.

Discussion. Our present price to our customers in less-than-carload lots is $3.40 for a case of 18 twenty-eights and $2 65 for a case of 24 fourteens. In carlots, our price is $3.325 for a case of 18 and $2.60 for a case of 24.

Raisins.

Quantity discount. None.

Discussion. So far as we know the products of all raisin and dried-fruit packers are not offered on a quantity discount basis. From time to time an occasional deal is made involving a quantity arrangement but they are so few in number that we would estimate that they do not involve more than about 1 per cent of our contracts.

Trade discounts are not customary among dried-fruit packers. The goods are sold on the basis of sight draft, with bill of lading attached,

on the regular California Dried Fruit Association contract, which provides for a cash discount of 2 per cent 10 days in the case of rail shipment and 2 per cent 2 days sight in the case of water shipment. There are a few large operators who receive a discount which is to be used for advertising and promotional purposes.

The few distributors who qualify for these arrangements have their own advertising and promotional department and are thus able to serve manufacturers more economically than if the work were directly done.

Line of food products.

Quantity discount. No trade and no quantity discounts except a carload and pool-car allowance.

Discussion. The carload and pool-car allowances are based on freight savings and in general run about 4 cents a case on carloads and about 3 cents a case on pool cars. These discounts bear a definite relationship to the saving in transportation charges or warehouse charges which accrue to us by reason of the customer's ordering in carload quantities.

Walnuts.

Quantity discount. Quantity discounts never allowed. Same prices to all buyers.

Discussion. Only discount is a cash discount of 1 per cent within 3 days after presentation of draft—allowed only on walnuts in the shell. Shelled walnuts are sold at net prices with no discounts whatsoever

When this Association was organized 26 years ago, one of the first principles enunciated was that our products would be sold to every buyer at the same price.

Automotive

Tires.

Quantity discount. We have used the quantity discount system for a number of years.

Discussion. We feel that there is a considerable saving in extending quantity discounts—chiefly because delivery is made from one point, namely, the factory. Obviously, whenever tires or tubes pause in their course from the factory to the car owner's wheels, there is overhead expense added.

Tires.

Quantity discount. Quantity discounts used for 15 years. On some products, both trade and quantity discounts allowed.

REGULAR BONUS

Yearly volume	Rate, %	Yearly volume	Rate, %
$ 500 to $ 749	2	$ 4,000 to $ 4,999	9
750 to 999	3	5,000 to 6,499	10
1,000 to 1,499	4	6,500 to 7,999	11
1,500 to 1,999	5	8,000 to 9,999	12
2,000 to 2,499	6	10,000 to 11,999	13
2,500 to 2,999	7	12,000 to 14,999	14
3,000 to 3,999	8	15,000 and over	15

Discussion. We feel that the underlying justification for quantity allowances and discounts lies in—first, the benefits accruing to us from increasing the size of orders, and, second, the benefits accruing to us from concentration of our dealers' purchases on our goods rather than on products of competitors.

Tires.

Quantity discount. Quantity discount system not used.

Discussion. Our prices for the various classes of trade are fixed, depending on either our past experience, on their volume, or what we expect their volume to be in the case of a new account. It would change these net prices any time their business warrants, depending on increase or decrease. Our range of net prices to dealers varies in approximately 2½ per cent differentials, covering about a 15 per cent range on volumes from approximately $2,000 annually to $50,000 and above.

We do not consider there is any justification for quantity discounts and do not believe there would be any saving. [Consistency!—The Authors.]

Automotive accessories.

Quantity discount. Quantity discount of 5 per cent for carload quantities.

Standard trade discounts all the way from net to 50-5-5 per cent.

Discussion. Inasmuch as the small account is in competition with the larger one and does for the territory covered a job equal to that done by the large account, we have never felt justified in extending an extra discount to the large account, which is what the quantity discount does. In other words, we believe that the jobber should be paid for the service he renders to the public in the area he covers, and just because one concern has more money than another is no reason why the smaller concern should be at a disadvantage from the purchasing standpoint, or from the profit standpoint.

Automotive accessory.

Quantity discount. We began to market spark plugs about 8 years ago by attempting to sell them through the regular wholesale and jobber channels and meeting with practically no success whatsoever.

In view of the above, it was then decided to build a merchandising plan for the distribution of our products through our own organization direct-to-dealers on a consignment basis.

These dealers are contacted regularly and at least once every 28 days by our own sales organization, consisting of 367 salesmen, whose efforts are governed by 36 supervisors. These supervisors are governed by 6 division managers. We sell dealers on a consignment basis at a flat wholesale price. In addition to this, we have contracts for 500, 1,500, 2,500 and 5,000 units to be taken over the period of a year at a slight reduction under the flat wholesale price.

Discussion. Our product is not sold to manufacturers of automobiles as original equipment, as they are only interested in buying at a price, and our product is engineered strictly for replacement and of the very highest materials obtainable. Neither are our products sold through mail-order houses, chain stores, or any of the so-called "gyp" outlets.

By consigning we can control our resale price and, more important, we can control our stock distribution system, which does not permit us to make other than what the consumer is actually purchasing.

When our organization calls on these 60,000 dealers, they collect for products sold and refill or adjust the stock, depending upon sales demand.

Automotive accessories.

Quantity discount. One basic price, regardless of quantity. Sales through distributors are made—varying upon the product—from 60 to 45 per cent off list, the distributor in turn giving the dealer in general 33⅓ per cent off list.

Auto replacement parts.

Quantity discount. Quantity discount system not used as a basic part of price structure.

Discussion. Our products cannot be bought by the ultimate user, the car owner, except in connection with mechanical service. In other words, our goods are not, strictly speaking, consumer goods. In effect, the repairman is the consumer of such products as ours and except to a limited extent no special sales drive which he might be aggressive enough to put on could very greatly increase his business. Consequently, the anticipated incentive of quantity discounts for increased sales efforts cannot be fundamentally effective.

By the same token, the same situation exists with the wholesalers, through whom all our merchandise is distributed in the replacement trade. We recognize the effect of the extra-profit incentive on sales efforts by extending to the wholesaler certain volume-business premiums. This is a general practice in the distribution of automotive replacement parts.

Building Materials and Equipment

Oil burners.

Quantity discount. Small-town dealers are given a discount ranging from 25 to 35 per cent, and to this extent we observe the quantity discount. These dealers are located in towns of 2,000 to 3,000 up to cities of 40,000, 50,000 and 60,000.

We start most small-town dealers off on a 25 per cent discount and they earn the longer discount by the number of burners sold. When a small-town dealer has sold 10 or more burners, his discount goes to 30 per cent, and when he sells 25 or more his discount goes to 35 per cent.

To the distributor whose activity is purely wholesale, we ship equipment on a 50 per cent discount. To the distributor in the metropolitan centers, we call him a distributor, we ship equipment on a 40 per cent discount.

Discussion. In the way of policy and philosophy—the situation in the oil-burner business for many years has been such that we have always felt it wiser to price our equipment to dealers at the lowest possible levels rather than to establish an artificial base which would make possible additional discounts for quantity or special discounts under special circumstances. Following this policy, therefore, we have never quoted discounts for quantity. For the same reason and in the same manner, our prices to distributors and dealers do not embrace any profit that permits the factory to absorb cost of transportation. Our equipment is shipped f.o.b. factory.

Wire products.

Quantity discount. We do business with jobbers and with contractors direct, and also do what is called a "bid" business for large projects—handling this direct also. The discount depends very largely on competition—or it has in the past.

Discussion. There is a base price beyond which we do not go, but the discounts allowed from the list are determined very largely on the value of the order to us from a production standpoint.

Boilers.

Quantity discount. Carload price, base price less 5 per cent.

Two carloads or more, base price less 7½ per cent.

Radiators.

Quantity discount. Carload price, base price less 5 per cent. Two to 5 carloads inclusive, base price less 9½ per cent. Six carloads or more, base price less 10 per cent.

Stokers.

Quantity discount. No quantity discount.

Discussion. We sell our product through exclusive dealers at a standard and uniform discount off an established list. The discount we give is the same to all, regardless of the volume they purchase from us.

Builders' hardware.

Discussion. Generally speaking, we do not believe in quantity discounts, but rather believe that those who purchase our material for resale should in every instance be in a position to buy those goods at as low a price as their competitors.

In the main we market our products through the hardware trade, utilizing the jobbers to give us coverage in all the small communities and with the major group of retailers, whom we feel that we cannot afford to call on direct. We do deal direct with certain retailers, but only the very large ones, who, because of their buying power and general standing, obtain their requirements direct from the manufacturer rather than from the jobber.

Our policy is to sell the jobbers all on the same basis, regardless of the size of their purchase. The reason for this is that these jobbers, whether large or small, are in direct competition one with the other, and obviously to sell on a quantity discount basis would mean that the larger jobbers would be in a position where they could undersell their smaller competitors, so that ultimately all but the largest buyers would go out of the picture. So far as the retailers whom we sell direct are concerned, they in many instances purchase from us over a given period of time a larger volume than do some of the smaller jobbers. We do not, however, give these large retailers as good a price as we do to the jobber, for, after all, if he will conform to our suggested retail prices, our product will return him a very attractive margin of profit, even greater than that which the average retailer enjoys on our line, and a much higher percentage of profit than the jobber secures.

Although I have said that we do not use quantity discounts, this is not literally true in every respect, for we do sell some of our products to the very large manufacturers, who incorporate them as a part of their own, such as the automobile manufacturers, luggage manufacturers, metal-furniture manufacturers, and so forth. In establishing these prices, we are to some extent governed by the volume of business which that customer gives to us. But it is not naturally on the same basis as is

generally understood by the term "quantity discounts," in that we have no specific prices for given quantities.

Air-conditioning equipment.

Discussion. Under our system, a dealer is appointed and given an exclusive franchise for certain territory. Our products are sold to him on a list less discount basis. The discount which the dealer receives varies with the potential of his territory; *i.e.*, a dealer in a large city, whose purchases from us over a year's period amount to a large sum of money, receives a larger discount than a dealer in a small community. This difference is justified by the extra expense in percentage required to handle a smaller volume of business. These dealers then sell our various products at list plus installation expense.

When a quantity of units is sold to a purchaser, such a speculative builder or a builder of a number of homes, apartment-house owners, etc., it is customary for the dealer to give the purchaser a discount from the retail list price. This consumer discount varies with the type and quantity of products involved.

Oil burners.

Quantity discount. Quantity discounts allowed for 8 years.

No trade discounts.

The following table indicates quantity discount schedule on one type of burner.

Number of Burners	Price
1–3	$214
4–10	207
11–30	198
31–60	189
61–125	181
126–250	173

Discussion. Quantity discount justified on account of lower cost per unit for man power.

Sheet metal.

Quantity discount. The producers in the sheet-metal branch of the steel industry conduct their business almost entirely on the basis of a one-price policy.

Discussion. Of course there are quantity extras for less-than-carload shipments but as a general thing the small carload buyer can purchase steel today at the same price as one buying in large tonnages. The one exception to this policy in so far as the sheet industry is concerned is in connection with the sale of galvanized sheets to jobbers for resale.

Provided they sign a jobber's agreement, which requires that they sell at no lower price than the producer, we are privileged to extend them a $2 a ton deduction under the published base price.

Building Board.

Quantity discount. We have established a fixed price to the dealer for specific quantities. These prices figured per 1,000 sq. ft., taking ½ in. Bordeau Building Board as an example, are:

Carload—56,000 sq. ft. ½ in. thick—$33. ½ Carload—28,000 sq. ft. ½ in. thick—$34. 8,000 to 28,000 sq. ft. ½ in. thick—$37. Less than 8,000 sq. ft. ½ in. thick—$40. (In South and West, $42 instead of $40.)

Discussion. The spread between $33 and $40 permits the dealer who buys a carload to sell small quantities out of his stock to another dealer at the same price we would charge the other dealer if sold direct, and allow the carload dealer selling the material his costs of handling, including freight or trucking to a near-by dealer, and a small profit. The spread between the carload and half-carload price is adequate to compensate us for the extra costs in loading, handling, and billing one shipment to two dealers made up of a half car each and at the same time is adequate to persuade the dealer who might only buy a half car, but could just as well buy a carload, to take a full carload. The spread between the carload and 8,000 ft. to half-car price just about compensates us for the additional costs involved in handling and billing orders of this size, as on many such orders we must absorb less-than-carload freight instead of carload freight and in certain localities warehousing charges.

Clothing

Men's clothing.

Quantity discount. None.

Discussion. Biggest and smallest customers pay the same price. Terms 7 per cent 30 days; 5 per cent 60 days.

We have never seen any justice for quantity discounts as it applies to our business, consequently we have never given them and do not contemplate doing so.

Quantity discount. For many years we did not grant quantity discounts. During the past year we have experimented with the idea to some extent, but are not ready as yet to formulate a judgment as to its value.

Discussion. Terms 2 per cent 30 days, 60 days net.

Haberdashery.

Quantity discount. We have used the quantity-discount system from time to time for 15 years or more. Some years during this time this was

part of our selling scheme and other years it was not. It depends a great deal on what our selling and production problems are for that particular year or particular time of that year. We have not at any time given what you would call both trade and quantity discounts. If we gave any discounts in excess of the regular financial discount it was in the nature of a quantity discount. It is not a part of our regular discount system.

Silk underwear and hosiery.

Quantity discount. No quantity discounts allowed.

Discussion. We believe that any system of quantity discounts would encourage price cutting, whereas with our present policy of suggesting retail prices, plus a selection of better type of stores as outlets, our merchandise is rather generally offered to the consumer at uniform prices.

I might add that we experience no pressure, even from our larger users, for quantity discounts, because the trade has generally come to know that we sell only on one set of terms and prices.

Hosiery.

Quantity discount. No quantity discounts allowed.

Discussion. Terms 2 per cent 10 days, 30 days net.

Knitted goods.

Quantity discount. No quantity discounts allowed.

Discussion. Uniform terms to all merchants regardless of quantity.

Terms 3 per cent 10 days c.o.m., or 2 per cent 75 days from date of invoice when trade acceptance is promptly signed and returned.

For some years the executives of our company debated the question of allowing quantity discounts. It was reasoned by some that manufacturing, selling, shipping, and accounting costs were less per unit on quantity purchases. It was reasoned that if the larger buyers were given advantage of this saving it would increase the volume to larger outlets and thereby add to the profit of the manufacturer. It was finally decided to experiment with a graduated quantity discount plan. The first year we allowed a discount of 1 per cent on a volume of $1,000. A discount of 1.2 per cent was allowed on $2,000 and 0.1 of 1 per cent additional on each $1,000 thereafter, with a maximum of 5 per cent on a volume of $40,000 or more. Sales were apparently not stimulated to any appreciable extent the first year but we decided to give the plan a thorough tryout by extending it for another year. The only change in our second-year plan was to limit participation in quantity discount to volumes of $3,000 on which a discount of 1.3% was allowed.

In our plan the merchant was not permitted to deduct the discount when payment was made but a summary of his purchases was made at

the end of the year, the discount computed on the volume of merchandise paid for, and a check drawn for the amount of the discount allowance.

As explained at the beginning, we manufacture branded merchandise, which is extensively advertised and on which extensive sales-promotion efforts are made.

Our 2-year experiment convinced us that that sum expended for quantity discount could be made to produce more satisfactory results both to the merchant and manufacturer when judiciously expended in advertising and sales promotion.

Corsets.

Discussion. Strictly net "no discount" basis.

Corsets.

Quantity discount. No quantity discounts allowed.

Corsets.

Quantity discount. Quantity discounts not allowed.

Discussion. Terms 8 per cent 10 days, 6 per cent 50 days, net 51 days.

Drugs and Toilet Goods

Drug products.

Quantity discount. Price differential provides lower prices for certain quantities of products and a quantity price on a quantity assortment.

Discussion. Uniform cash discount of 1 per cent on invoices paid on or before the tenth of the month following date of invoice.

Proprietary remedy.

Quantity discount. No quantity discount allowed.

Discussion. Trade discount 15 per cent.

Cash discount 2 per cent 15 days.

Minimum order required $100 at list price.

I do not believe that there is any justification for giving quantity discounts in a business such as ours. While it is true that some saving may be effected on freight and on the cost of handling orders, nevertheless there is the offsetting disadvantage of giving one customer a better price than you give another customer simply because the first customer is able to buy a large quantity.

Proprietary remedies.

Quantity discount.

Amount	Discount, %
1 gross	12½
2 gross	15
3 gross	16⅔

Orders for above quantities may be either straight or assorted among the many items but must conform with the standard shipping cases.

Discussion. Terms: 30 days net.

Cash discount: 2 per cent 10 days from date of invoice, east of Mississippi; 2 per cent 20 days from date of invoice, west of Mississippi.

These discounts apply to all our direct buyers, whether they be wholesalers or retailers. We have a policy by which a customer, irrespective of his classification of trade, retailer, wholesaler, etc., is permitted to enjoy the discounts complying with the quantities as noted on the attached price list. Our justification of quantity discounts is that we feel that a customer who is in a position to buy the quantity that permits the maximum discount should get same as compared with the smaller customer who can only buy in lesser quantities.

Some dealers, as you know, are much more aggressive merchandisers than others, and it is for that reason we feel they are entitled to a better price than the small man who simply buys from hand to mouth in accordance with whatever demand the manufacturer creates for his merchandise.

Drug product.

Quantity discount. Following quantity discounts allowed: 72 doz.—40 and 10 per cent, 24 doz.—40 and 5 per cent.

Discussion. Theoretically a dealer should sell no more of a given product because he buys it in larger quantities, but in actual practice increased sales usually result. Further, when a retailer gets to the point of selling a product in quantity he looks for and is usually able to get quantity prices and the offering of such concession has become pretty much of a trade practice. It is probably true that if no manufacturer in our field offered quantity discounts, we would be able to withdraw them. On the other hand, we do not choose to be the one to try such an experiment.

As regards the savings effected by quantity discounts, I think these are obvious. We save in selling time, invoicing, packing, shipping, and in any other operation where the work is not proportionately increased with the size of the order. In most instances it takes no more effort to enter or handle a 12-dozen lot than it does in the case of a 1-dozen lot.

Proprietary remedies.

Discussion.

	List price	Retail price
Item 1	\$ 8.00 per doz.	\$1.00 per bottle
Item 2	12.00 per doz.	1.50 per bottle
Item 3	4.00 per doz.	0.50 per tube

All our merchandise moves through the regular drug channels, namely, the wholesaler and retailer, to the consumer. The wholesaler receives the usual trade discount of 16⅔ per cent of the list price, plus 2 per cent cash. Chain stores that buy in large quantities are put on practically the same basis as the wholesaler. We do not make a practice of giving quantity discounts but have made an exception once or twice during the last few years to quantity buyers. We would give this same extra discount, however, to any concern that buys in such quantities. We do not believe there is any real justification for giving quantity discounts, in our business particularly, owing to the fact that, if a customer buys a larger quantity at one time, it only means a longer period of time between purchases. Our policy always has been the same price to all and we will continue this practice, as we find it more satisfactory in the long run.

Drug products.

Quantity discount. Extra discounts for quantity products not allowed.

Discussion. Some 8 or 10 years ago it was our practice to allow a quantity discount on large-size purchases, but we did not feel that the plan was consistent or to our advantage.

Drug products.

Quantity discount. Always sold on a quantity-discount basis, over a period of 25 or 30 years.

Discussion. In the early part of this period there were also given both trade and quantity discounts, a setup at that time making a trade discount and a quantity discount the differential between wholesalers and retailers. At the present time, the quantity of merchandise purchased is what brings about a trade discount. Present quantity discount 15 per cent on orders of $200 and over.

Terms 2 per cent 15 days; 30 days net.

We sell only on a quantity-discount basis although we suggest quantity discounts be given by the wholesale trade to the retailer, such discounts taking into consideration the general custom of today of the wholesaler allowing some sort of discount because of the volume of purchase.

Proprietary remedies.

Quantity discount. Anyone who places an order of a $50 minimum with us receives our standard discount.

Discussion. Our general feeling is, since we are making a definite effort to stabilize resale prices on our products that any discounts based entirely on volume or quantity would encourage diversion of our merchandise to channels that do not respect our suggested resale schedule.

Furniture, House Furnishings and Supplies

Furniture.

Quantity discount. Before 1929 this company did not have any regular quantity-discount system. It sold at varying discounts from list, depending upon the competitive conditions. In 1929, after some considerable study, we inaugurated a nondiscriminatory price policy which we hoped the industry would follow and which by and large it did, save for a few territories where competitive conditions had to be met. Our distributors are given a net cost regardless of quantity, since the drop shipments as compared with carload shipments about average up during the year. We have a recommended resale price list which our distributors follow, including, of course, our own wholly owned distributors. In connection with one item, a typical price is as follows

1–49 units	$615
50–299 units	580
300 or more	545

These prices are f.o.b. destination. The cost to the distributor on these units is $425 f.o.b. factory in any quantity. The percentage of differentials is similar with all of the various units in this line.

Therefore it may be seen that in this particular line the quantity discount is not a part of our trade-discount system. On another item, the following scale of quantity discounts applies:

1–399	List
400–699	10%
700–999	12½%
1,000 or more	15%

Distributor's discount from list is 15 per cent. Where there is a resale discount, distributor and ourselves share equally the amount of discount taken. We do not manufacture goods on a cost-plus basis.

Summer floor coverings.

Quantity discount. Quantity discounts have been employed intermittently over a period of 10 years or more. Both trade and quantity discounts allowed.

Quantity Discounts

Small buyers	List
Fair buyers	5% off
Medium buyers	10% off
Large buyers	10–15% off

QUANTITY REBATE

Season volume $5,000 to 9,999	1%
Season volume 10,000 to 14,999	2%
Season volume 15,000 to 24,999	3%
Season volume 25,000 to 49,999	4%
Season volume 50,000 and over	5%

Discussion. With respect to the quantity-rebate plan, the season is understood to start in November and end July 30 of the following year. We appreciate that the quantity-rebate plan is not, in the strict sense, a quantity-discount plan. In effect, however, the theoretical advantages are much the same.

The quantity-rebate plan attempts to direct all the business originating in an individual store to one manufacturer, for, obviously, the greater the volume of business that the store places in a given season, the greater will be the value of the rebate at the season's close.

The following remarks may not be of value to you in your study, but we outline our views with respect to trade discounts and quantity-rebate methods for whatever they may be worth. In the floor-covering field it has been common practice for years to determine the discount to which the dealer is entitled by the quantity of merchandise that he buys at the beginning of the season. Thus, we find a dealer situated in the same locality with others paying as much as 17 per cent more for the same identical goods. Because of difference in trading practices in various types of stores, this method of selling by manufacturers has proven decidedly harmful to small dealer outlets and has retarded their growth. To prove our case, let us say that a large department store and a small furniture dealer operate in the same trading area.

The department store, by reason of being a large buyer, can secure the maximum trade discount of 10–15 per cent. The small store, however, being a small buyer is obliged to buy at net list. Therefore, an article listing at $20 would cost the furniture store that sum, while the department store would buy the same article for $17.10. The trouble, though, has just started.

The department store, selling for cash, takes a markup on cost of 66⅔ per cent, obtaining a resale price of $28.50. The furniture store, however, sells on deferred or time payments, and must secure a full mark, or 100 per cent on cost. Their resale price is therefore $40. This wide difference in the consumer price either causes the customer of the furniture dealer to defer purchase or induces her to trade with the department store, which sells for less. It is our opinion that there should be no variations in trade discounts and that all stores should buy on an equal price basis. Under a plan of this kind, an article listing at $20 would be sold by the department store for $33.35 and by the furniture store of $40. The difference would not be considered too great for

the convenience of time payments, fewer sales would be deferred, and the small dealer would have an opportunity to grow, an opportunity which is denied to him now.

If there is to be a reward for the placing of volume of business, it is our feeling that this should be in the form of a rebate plan at the end of the season or end of the year.

Cleaning compounds.

Quantity discount. Quantity discounts allowed. We have a uniform wholesale price which varies according to the quantity purchased. We do not sell retailers direct, with the exception of chain stores (which purchase at the wholesale price) and, therefore, have no trade discount. Wholesalers or jobbers set their own resale price. We give a suggestive retail price which, however, is not followed by the wholesaler or jobber. Our quantity discounts vary according to the turnover of the article. On slow-moving merchandise, the prices vary on 25-, 50-, and 100-case lots. On faster moving articles, we have a price for less than 100 cases, 100 cases and over, and then a special carload price.

Discussion. Merchants will push articles if they have considerable money tied up and we also find a competitor has little chance of selling the merchant if he is already loaded with that particular class of commodity. On carload shipments, there is, naturally, considerable saving in freight, and we feel that a concern in a position to purchase in large quantities should receive a better price than the smaller individual, as he gives the manufacturer more support and greater distribution, which after all, is the result the manufacturer is looking for.

Lubricants and Gasoline

Lubricants.

Quantity discount. No quantity discount allowed on sales to distributors.

Discussion. However, we recommend that our distributors resell lubricants to their outlets on a quantity basis, which varies from 1–2½ cents a pound, depending on quantity

Oil.

Quantity discount. Quantity discounts allowed for 12 years. No trade discounts.

500 gal	3¢ per gal.
1,000 gal	4¢ per gal.
1,500 gal	5¢ per gal.
2,000 gal	6¢ per gal.
2,500 gal	7¢ per gal.

Discussion. There is no particular reason for using this discount schedule except that we have been driven to its use through competitive practices, and such a schedule is in general use throughout the oil industry, although the amounts—of both gallonage and rebate—may vary with various companies.

The rebate or discount serves only as an incentive toward increasing the efforts of an individual dealer so that he may earn, under the contract, a better price for a given annual period.

Oil.

Quantity discount. In conformity with trade practice, we have used quantity discounts, on certain classes of products, particularly lubricants, for some 15 years or more.

Discussion. It costs just about as much to sell and service a dealer whose requirements are, we shall say, 500 gallons of motor oil per annum, as the one whose requirements are 1,000 gallons or more per annum.

Oil.

Quantity discount. Both trade and quantity discounts allowed.

Quantity	Deferred dis
(*a*) Oils:	
From 250 to 500 gal	2¢ per gal.
From 501 to 1,000 gal	4¢ per gal.
Over 1,000 gal	6¢ per gal.
(*b*) Greases:	
From 400 to 799 lb	½¢ per lb.
800 or more lb	1¢ per lb.

Discussion. Delivery service on 5 gallons of oil is just about as costly as on 50 gallons. Hence we feel, and this is in accord with trade practice in our industry, that the larger buyer is entitled to a somewhat lower price.

Oil.

Quantity discount. Some form of quantity discounts allowed for many years.

Different prices to consumers, dealers, and jobbers.

To Consumers:

Discount off Market Prices	
250 to 499 gal	4¢ a gal.
500 to 1249 gal	7¢ a gal.
1250 to 2499 gal	10¢ a gal.
2500 to 7499 gal	13¢ a gal.
7500 gal. and over	17¢ a gal.
Carload (one delivery)	17¢ a gal.

To Dealers:

Discount off Dealers Prices	
250 to 499 gal	2¢ a gal.
500 to 1249 gal	4¢ a gal.
1250 to 2499 gal	6¢ a gal.
2500 gal. and over	8¢ a gal.
Carload (one delivery)	12¢ a gal.

Discussion. The fundamental purpose and the justification of the quantity discount is, of course, that large quantities can be handled in a cheaper manner than small quantities. In cases where quantity discounts are allowed on accumulative purchases over a contract period, but where the actual deliveries are made as needed, the saving resolves itself into one of selling expense. Certainly prices would have to be much higher if it were necessary for the dealer to have his salesmen make calls and individually sell each sale.

Paint

Paint.

Quantity discount. Quantity-discount system used since 1924.
Quantity discounts to dealers only as follows
Figured for a 12-month period based on sliding scale purchases.

	Heavy goods, %	Shelf goods, %
$2,000 to $3,000	2½	5
3,000 to 5,000	5	7½
5,000 to 7,500	7½	10
7,500 to 10 000	9	12½
10,000 to 15 000	11	17½
15,000 and over	12½	20

Discussion. Trade discount 33⅓ per cent to 40 per cent.
Justification for quantity discount:

1. To encourage dealer loyalty and to keep out competitive specialties.

2. To encourage dealer merchandising activity through the inducement of greater profits resulting from greater sales volume.

3. To establish a rigid price policy to prevent the extension of prices that are too low, to accounts that would not normally qualify. In other words, to prevent unprincipled buyers from overestimating their requirements in order to secure better prices from salesmen on the territory.

Paint.

Quantity discount. Quantity-discount system used for past 10 years.

Discussion. Within a year or two after the war, dealers' printed price lists on many lines of merchandise became more or less nominal and manufacturers began to allow varied discounts—some on quantity purchases and others on any quantity that a dealer might require. This necessitated some action, and a system of discounts on invoices to dealers was worked out by some manufacturers based on a past 3-year average of purchases. This action began in a general way during the first half of the year 1926 and was fairly satisfactory, although not entirely so, until about the period when our present business depression began. Under that system manufacturers learned they were giving unearned discounts on estimated quantity purchases. To relieve that situation changes were instituted here and there with an attempt to make it general. Instead of allowing discounts on invoices for a certain estimated volume, the quantity discounts were arranged to be given in the form of a credit at the end of the 12 months' period and under a scale dependent upon the volume of business supplied by the dealer to the manufacturer or distributor, during that time.

While the situation was relieved somewhat, the plan is not working entirely satisfactorily. The dealer who is in a position to buy the larger quantity naturally procures a lower net cost, which is given him in the form of a credit at the end of each 12 months' period. He is, as a rule, much inclined to use this lower net cost on quantities to make a lower price to the consumer and thereby greatly disturbs the smaller dealer in an adjoining town, who is not in position to purchase the quantity necessary to bring his net cost to the same level. A conflict naturally ensues many times between dealers in adjoining towns, especially on products sold on the exclusive-agency plan.

It is my belief that the general outline above presented applies to a great many lines of merchandise or practically to all those sold to dealers on the exclusive-agency plan—that is, one dealer agent in each town. A distributor or a large jobber in one of the large centers will of course sell many dealer agents within his territory and should operate, if he is the proper kind of distributor, on the same price policy as used by the manufacturer.

The difficulties we experience in these times by operating a price policy along the lines described is that a prominent dealer, who is succeeding in the face of all obstacles, will fight for the same discounts on the smaller quantity that he is now purchasing that he received when his business to the manufacturer was double or over that amount. In justice to all dealers both large and small, it is my opinion that but two dealer's prices should apply. The dealer's price base should be for a

small town of 500 to 2,000 population. For the desirable dealer firm in the larger point—say county-seat town or over—there should be just a slight percentage of discount lower to enable him to cover the additional expense of rent, sales, newspaper advertising, etc., necessitated by the larger center. For the small jobber or distributor who operates in a small, clearly defined territory, he should be given a legitimate jobber's discount to enable him to sell to the two classes of dealers just described. For the large distributor purchasing carloads or necessary large quantities of products, covering definitely allotted territory with salesmen at his own expense and operating under a strict ruling of manufacturers' sales policies, he should enjoy a slightly better list of discounts than the smaller jobber.

Paint.

Quantity discount. Quantity discount system used for about four years. Both trade and quantity discounts allowed. Scope of discounts as follows:

Discussion. The writer justifies quantity discounts. A discount plan confines allowances to a definite kind or number of dealers who handle a manufacturer's materials more or less exclusively, eliminating a general dealer discount to the "dealer class," which would include any and all small dealers, many of whom might carry a mixed stock of several manufacturers. Sales costs are lowered by a discount plan because it eliminates constant sales effort toward all accounts, the franchise customers seeing to it that they place the greater part or all of their business with the manufacturer with whom they are dealing in order to get into higher percentage brackets. These dealers keep themselves and their clerks better informed in order to increase their volume. Conversely, where an account does not qualify under the discount plan, constant sales effort must be directed toward it to keep down competition. Does not manufacture on cost-plus basis.

Annual net purchases	Special discount, group products, %	Paint discount, group products, %	Jobbing discount, group products, %
$2,000 but less than $3,000	4½	3	1½
3,000 but less than 4,000	6	4	2
4,000 but less than 5,000	7½	5	2½
5,000 but less than 6,000	9	6	3
6,000 but less than 7,500	10½	7	3½
7,500 but less than 9,000	12	8	4
9,000 but less than 12,000	13½	9	4½
12,000 and over	15	10	5

Machinery and Mechanical Supplies

Machine screws.

Quantity discount. Quantity discounts not used for 30 years except in the case of one item, which is rather an overcharge for smaller amounts. These overcharges are as follows:

200,000 and up	Base
100,000–199,000	$0.01
75,000– 99,000	0.02
50,000– 74,000	0.03
40,000– 49,000	0.04
30,000– 39,000	0.05
25,000– 29,000	0.06
20,000– 24,000	0.07
15,000– 19,000	0.10

Discussion. Terms 2 per cent 10 days, 30 days net.

Machinery and tools.

Quantity discount. Not in favor of quantity discounts on stock articles.

Discussion. Extra discount of 10% allowed on but two stock items in quantities of 12 or more. No cash discount allowed.

In the case of special products, made to order, the price is necessarily based on the number purchased.

Milking machines.

Quantity discount. Quantity discounts allowed since 1918.

The amount of discount shall be determined at the termination of contract by the number of units bought and paid for:

1 or more units	20%
5	25
10	26
15	27
20	28
25	30
30	31
35	32
40	33
45	34
50	35

Discussion. Quantity discounts are justified on the grounds that savings affected in sales costs are passed on to buyer.

Sporting Goods

Athletic goods.

Quantity discount. The question of "quantity discounts" may be divided into two general phases: First, true quantity discounts, that is, a discount which is given in accordance with the size of a particular order or shipment; second, a type of discount which could more properly be defined as a "volume" discount, and which is usually in the form of a percentage discount from a stated list price, dependent on the volume of purchases of the dealer customer over a period of time, which may be a period of one month, or one year, or periods of intermediate length. So far as the athletic-goods business is concerned, there is very little if any discount of the first type. Our company, however, uses discounts of the second type very extensively. They are based on an annual volume of purchases by a dealer customer, and the percentages are figured from what we call our list trade or wholesale prices. The rate of discounts and the annual volume of sales respectively required are as follows:

12 Months' Purchases	Percentage of Discounts
\$350 to 749	5
750 to 999	$7\frac{1}{2}$
1000 to 1999	10
2000 and over	15

Discussion. For a more complete understanding of the price situation in the case of athletic goods, the generally prevalent price structure in the industry today is for manufacturers to publish retail list prices. The so-called "trade" or "wholesale" price usually shows a margin of 30 per cent below the list price, and the lowest price to wholesalers or jobbers is customarily $33\frac{1}{3}$ per cent below the so-called "trade" or "wholesale" price, so that the lowest jobbing price is $46\frac{2}{3}$ per cent of the retail sales price. It is also customary for manufacturers of athletic goods to have one or more intermediate jobbing price between the trade price and the lowest jobbing price. It will probably appear to you that the margin between the so-called "wholesale" price and the lowest jobbing price is unusually large. The reason for this is that at the present time the athletic-goods price structure is very largely dominated by the lines generally referred to as "team equipment," that is in general, baseball, football, and basketball goods and equipment which are purchased by group or consumer buyers such as schools, colleges, and athletic associations of various kinds. These consumer buyers all purchase at the so-called "wholesale" or "trade" price; being, however, consumer buyers, the cost of selling them, on the part of wholesaler or distributors,

is very much larger than would be the case of sales to the dealer trade. As a result of this situation there is a tendency for all manufacturers' sales to be made at the lowest jobbing price, and because of the fact that a great many distributors do both a retail business and also distribution at wholesale, there is very little attempt to draw a sharp distinction with respect to price because of the function performed by the buyer.

Farm Supplies and Equipment

Tractors.

Quantity discount. Quantity discounts never allowed.

Farm tools.

Quantity discount. We sell the hardware jobbing trade practically all the products we manufacture and have not had a very consistent price policy over the last 15 years, as we have experimented at various times with net prices to the jobber, resale prices, and consumer prices with discounts. At the present time most of our lines are sold on a basis of consumer price, less 50 per cent discount to the jobber, and in addition a small discount for quantity purchased during any fiscal year.

Farm implements.

Quantity discount. We have used the quantity discount system for more than 20 years. Some of our goods are priced at list and are subject to trade discount to dealers; others are priced to dealers at a net price basis—some are subject to quantity discounts, others are not. Quantity discounts are so much per unit (not on a percentage basis, except in the case of repair parts) determined by the quantities purchased. Example: quantity discounts on disc harrows run from $1 each on 5 to $2.50 each on 30 or more. Prices on disc harrows run approximately from $30 to $75.

Discussion. Some of the reasons justifying quantity discounts are:

There is a greater risk assumed by the buyer in tying up his capital in larger quantities.

Savings are made by the seller in handling and distribution costs.

Clerical effort may be no more on a quantity of goods than on a single unit. However, this does not hold absolutely true without variation, as assortment of sizes in a given quantity makes a difference.

Cost of handling goods in quantities is less. It may be considerably less where quantities are large enough to be shipped direct from factory in carload lots and stocking and reshipment from an intermediate point are not required.

If the demand on a given territory can be supplied by contacting a few dealers instead of many the supplier's expense for making such contacts is less.

Fertilizer.

Quantity discount. The fertilizer industry is composed of 600 or 700 companies, about half of which market their product direct to the consumer and the other half market their product through distributors. Those marketing through distributors have always been favorable to quantity discounts. Those marketing direct to the consumer have been opposed to them.

Quantity discounts to distributors are given as follows:

Less than 500 tons	No discount
From 500 to 999 tons	1% discount
From 1,000 to 1,499 tons	2% discount
Over 1,500 tons	3% discount

Quantity discounts to consumers in our price schedules are given as follows:

than 100 tons	No discount
From 100 to 299 tons	3% discount
From 300 to 499 tons	4% discount
Over 500 tons	5% discount

Discussion. The underlying reasons and justifications for giving quantity discounts in our business are based on the fact that it is less expensive to handle tonnage in volume from one buyer or distributor than from several buyers or distributors. To illustrate, it costs no more to make a contract with a distributor who handles from 500 to 1,500 than with a distributor who handles 50 to 100 tons. The cost of securing credit information, advertising, and general overhead expense is about the same in each case. Therefore, the volume buyer or distributor materially decreases the actual overhead expense and should be entitled to a part of the saving which he makes for the manufacturer.

Fire Arms and Ammunition

Powder.

Quantity discount. Quantity discount used for over 20 years.

Discussion. Both trade and quantity discounts allowed. Quantity discount allowed as a part of trade-discount system. In practically all the eastern part of the United States our high explosives are sold on a delivered-price basis; the lowest prices being those for carload lots of 20,000 lbs.; higher prices to cover lots of 2,000 lbs. and under 20,000 lbs., and still higher prices for less than 2,000 lbs. Our reason for giving quantity discount is because of the economies which can be effected when large-volume sales are made as against small-volume sales.

Fire arms, ammunition.

Discussion. In some lines, quantity discounts are used and apparently with success. In other lines they have proved a failure. One of the greatest faults of the quantity-discount plan, and particularly when it is applied to the smaller merchant, is overstocking and overbuying. Many small merchants are swayed by an extra discount to buy in quantities, but they never think of the demand for the article or the length of time required to dispose of more than their legitimate requirements. Therefore, in cases of this kind, the quantity discount becomes a severe penalty, for the carrying charges entirely eat up the added discount and then the stock on hand becomes a burden—and an expensive one. Many jobbers and wholesalers, particularly those with inexperienced buyers, have had similar experiences.

Ammunition.

Quantity discount. Our quantity discount is represented in a 2½ per cent better discount when a carload of ammunition is purchased by one buyer. We have used this discount for 15 years or more.

Discussion. We also allow on ammunition a prepayment discount; if a customer sends in his order for his anticipated requirements and this order is in our hands before April 1 for shipment at our convenience, we allow a prepayment discount of 7% April 10; if the order is in our hands previous to May 1, a prepayment discount of 6% May 10; if the order is in our hands previous to June 1, a 5% prepayment discount.

Electrical

Electrical equipment.

Discussion. Discounts are fixed according to the type of outlet served. In the case of distributors, our discount is 10 to 15 per cent greater than that of dealers who purchase direct from the factory. Most of our distribution is through distributors operating in closed territories. As a rule, dealers are set up only temporarily in new territories during the process of market development, being later turned over to a distributor through whom the complete trading area can be served advantageously. Some of our distributors, in supplying their dealers, work on a quantity-price basis, using a graduated scale according to the potential in the dealer's territory. This plan acts as stimulant to the dealer, who commonly handles other lines as well and requires some monetary influence to attract him regularly to our line. Where distributor accounts are concerned, however, we do not feel that this plan is advisable, since for the most part these distributors are exclusive for our products and the franchise itself depends to a large extent on their making a reasonably successful record each year.

Miscellaneous

Photographic equipment and supplies.

Quantity discount. Quantity discount used on certain products for a number of years. Both trade and quantity discounts allowed. Quantity discount is given as part of trade-discount system.

Discussion. Quantity discounts vary in different lines because of the economy in shipping in larger quantities and the desirability of having dealers stock a complete line.

Glass products.

Quantity discount. We have used quantity discounts for many years and with some lines quantity discounts are associated with trade discounts.

Discussion. It is impossible to answer your question as to the exact scope of these discounts. After all, a discount, whether trade or quantity, is primarily a means of establishing the net selling price. The list price may be high with a correspondingly high discount, or it may be low and subjected to lower discounts, both with the same result. You ask for underlying reasons and justification for applying quantity discounts and inquire about the savings effected. Well, in some lines it is done to follow the established practices of the trade; in others to induce customers to place quantity orders, which are obviously handled more economically than the small ones, and the quantity discount enables the customer to share in the savings created.

Insecticides.

Quantity discount. Quantity-discount system used for the last 10 years.

Trade discounts are based upon quantities purchased: 15 per cent discount on 9 cases or less; 16⅔ per cent discount on 10 to 24 cases; 17½ per cent discount on 25 to 49 cases; 20 per cent discount on 50 cases or more.

There are several savings that can be made on the larger quantity orders especially in office routine, savings in freight, warehousing, etc.

We of course do not manufacture on a cost-plus basis and have no set percentage of profit on our sales.

Motion-picture projection and sound equipment.

Quantity discount. No quantity discounts allowed.

Discussion. Do not manufacture on cost-plus basis.

Peat moss and peat-moss products.

Quantity discount. Quantity-discount system used for 50 years.

Discussion. Both trade and quantity discounts allowed. Quantity

discount is a part of trade-discount system. It is very difficult to give details as to the scale of discounts, as it depends on the trade that is being sold and the quantity purchased. In other words, there is no fixed scale of discounts except for each class of buyer and even that is subject to variation at times, depending on the competitive condition of the market.

Our material is very bulky and very low in price. On any bulky article it is much more economical to handle in carloads than in less carlots because of the large saving in transportation costs for quantity shipments. Furthermore, a large shipment requires no more bookkeeping or no more office routine than a small order. The biggest saving, of course, on quantity shipments is the saving in transportation.

Paper specialties.

Discussion. Our prices to wholesalers and dealers are net and, on the average, are equal to about 50 per cent of the final retail price. In general these prices apply to any quantity. For a very few commodities the prices vary according to the quantity purchased. Our prices to consumers for stock merchandise are usually the same as those charged by a wholesaler or dealer. Each trade usually has a standard markup, based on quantity purchased by the consumer. For example: Merchandise sold by paper houses usually carries markups of 60, 40, and 28 per cent for quantities of 1, 10, and 30 units, respectively. The standard markups recommended by paper trade associations can be secured from them.

Fountain pens.

Discussion. Forty per cent discount allowed to merchants who install a representative stock. Profit-sharing credit of 5, 10, 12, or $16\frac{2}{3}$ per cent at end of every 90 days, based on net purchases during that period.

High-grade jewelry.

Quantity discount. Our company manufactures an item of high-grade jewelry merchandise which is distributed exclusively through wholesale dealers, being resold by them to jewelry stores all over the United States. Our only discount to our wholesalers has been a cash discount of 2 per cent. We have never allowed any quantity or trade discounts, although this practice is followed to some extent in our industry.

Discussion. We have never considered quantity or trade discounts particularly valuable, and we find that our wholesalers exert good selling effort without this incentive, in view of the fact that our wholesale franchise is a desirable one, which carries with it a good margin of profit for the wholesaler.

We inaugurated a new and rather revolutionary distribution system in our business some time ago, and as a part of that new system we set up a method of extra discounts which we thought was practical and which, to my knowledge, has never been used in the past. Instead of avoiding all the headaches which usually follow extra discounts of any sort, we simply have acquired a new variety of headache. Even in the few weeks since its establishment it becomes apparent that our method of handling discounts is not going to work, and we are even now considering the total elimination of all trade, quantity, and extra discounts by the end of the year.

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